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YOUNG MEN'S MUTUAL IMPROVEMENT ASSOCIATIONS

MANUAL

1910-11

SUBJECT:

The Making of a Citizen

I—LESSONS IN ECONOMICS

PUBLISHED BY THE
GENERAL BOARD OF Y. M. M. I. A.
SALT LAKE CITY, UTAH

No. 14.

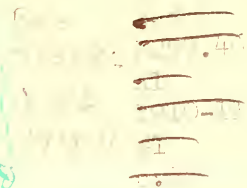
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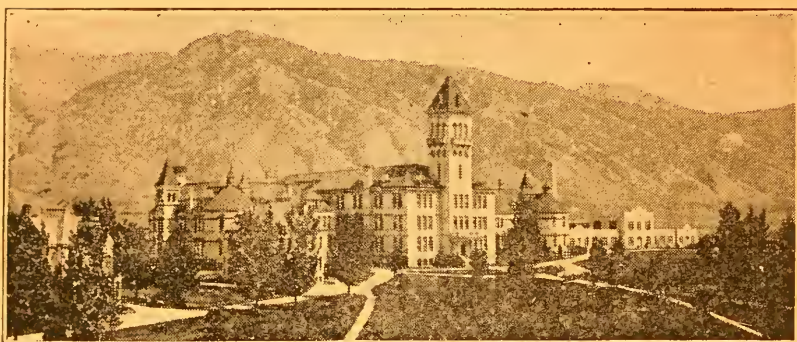


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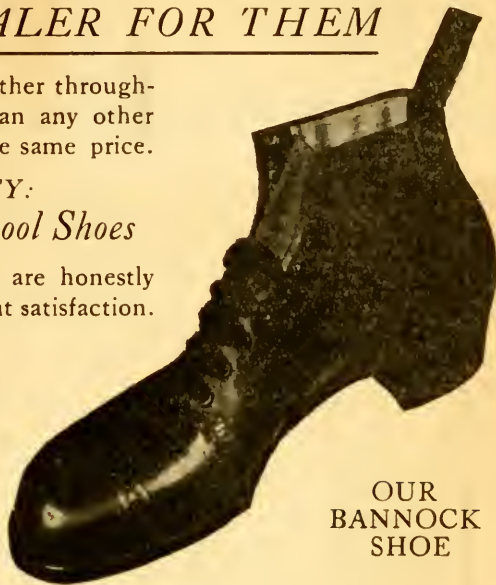
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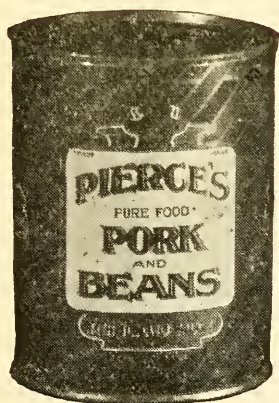
In the junior manual for 1909-10 are given a number of sample references to stories, readings and recitations appropriate for these exercises; and in the 1910-11 junior manual are many stories and anecdotes in the regular lessons that may be used, or that will give the officers an idea of the class of matter that may profitably be selected for the purpose.

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YOUNG MEN'S MUTUAL IMPROVEMENT ASSOCIATIONS

MANUAL

1910-11

SUBJECT:
THE MAKING OF A CITIZEN

I—LESSONS IN ECONOMICS.

PUBLISHED BY
THE GENERAL BOARD OF Y. M. M. I. A.
SALT LAKE CITY, UTAH

No. 14

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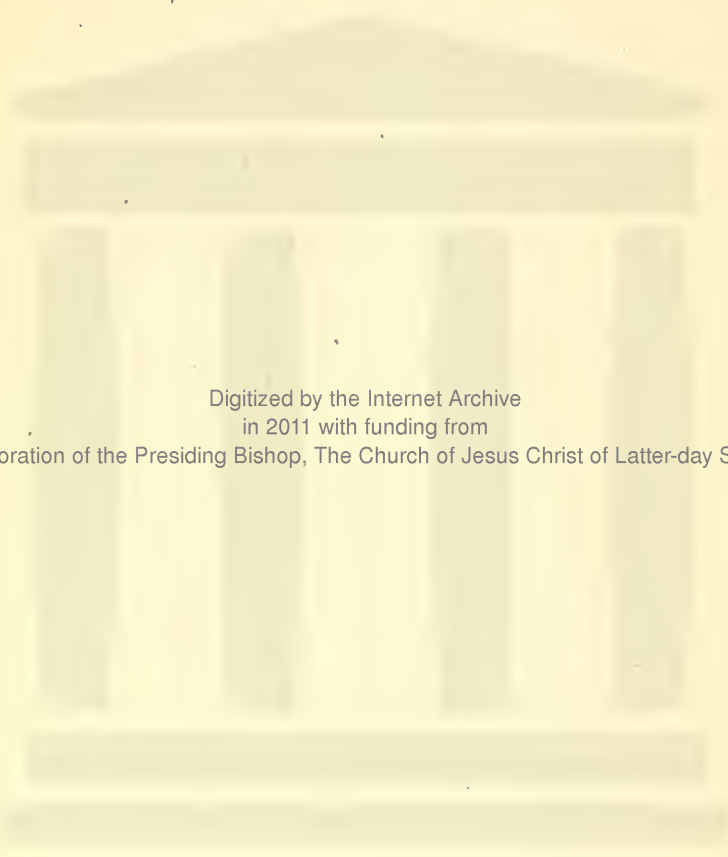
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INTRODUCTION.

This is the first of a number of manuals on "The Making of a Citizen." No better preparation can be made for public service and the responsibilities of citizenship than a careful study of the problems which the citizen is called upon to solve. As a foundation for an intelligent comprehension of these important problems, a knowledge of the fundamental principles of economics is a necessity. This manual is designed to furnish such knowledge and to serve as a preliminary study to a far more careful and exhaustive treatment of some of the large problems that confront us. At first thought the title may seem far-fetched, but the above considerations will make clear the reason for its use.

The lessons deal, in a popular yet authoritative way, with some of the underlying principles of the great science of economics. Their limits, however, are such as not to admit of anything like an exhaustive treatment of the subject. It will, therefore, be advantageous to study in connection with the manual some good text-books on elementary economics. The following are to be recommended: Bullock's "Introduction to the Study of Economics," "Economics, Briefer Course," Seager; "Political Economy," Walker; "Outlines of Economics," Eley. In studying some of these lessons, e. g., money, credit, and banking, it might be very helpful to invite some banker or business man to explain and discuss the lesson before the association.

Some of the questions treated are open, debatable ones, which cannot be referred to any final authority for answer. In such cases the arguments of the best authorities on both sides of the question have been presented, leaving the student to draw his own conclusions. There has been no attempt at originality in the preparation of these lessons. The freest use has been made of the works of standard writers on the subject; but in all such cases due credit has been given.



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THE MAKING OF A CITIZEN.

I—LESSONS IN ECONOMICS.

LESSON 1.

Human Wants: What they are and how they affect us.

Why Men Work.

According to the census of 1910, more than twenty-nine million persons in the United States were engaged "in gainful occupations." Of this number over eleven million were on the farm, in the mines, forests, and fisheries; nearly six and a half million were in the manufacturing industries, working up raw material into finished products; more than four and a half million were employed in exchanging products or in transporting persons and commodities; and nearly seven million were engaged in rendering various services, domestic, personal, and professional.

Doubtless some of these worked from a mere love of activity; others, men of great wealth, did so perhaps from an ambition to dominate large business enterprises. But the great majority of them labored for the purpose of procuring goods to consume. Directly, of course, they worked for money; they desired money, however, not for the money itself, but for what money will buy. Hence the starting-point in economics is this important fact that man has wants which can and must be satisfied.

To want something is a universal human experience. Everybody has wants, if he is at all progressive. "At times one may delude oneself with the belief that if only some pet desire were gratified perfect content would follow, but over and over again the discovery is made that when the wished for gratification comes, other desires have arisen in its place and satisfaction is as far off as ever. The normal man is thus a being whose wants constantly run ahead of his ability to satisfy them."

Kinds of Wants.

There are two general classes of wants in man:

(1) His existence wants. He has a body which must be fed, and clothed, and sheltered. In this respect he is like the lower animals. These needs are primary with both man and beast. A person on the verge of starvation will not require long to decide between a full meal and a ticket to the theatre. But man rises above the brute creation in certain desires. And so we have—

(2) The cultural wants. The aesthetic faculty in man creates new demands. As he grows in intelligence he becomes dissatisfied with the ruder and coarser forms of food, clothing, and shelter. He requires more varied and palatable food, finer clothing, and more beautiful houses. At a certain point in a man's rise from poverty a mere dining table will not suffice; it must be artistically arranged. He must have a finely designed house. A curious thing is that some spiritual wants can be satisfied only through the medium of material objects. "Thus a printed book is often the only means by which knowledge can be communicated from one mind to another." Then, again, man has distinctly social wants. The desire for the company of one's fellows is one of the strongest human wants. On this desire of men to live together is based the idea of organized society. Certain economic wants, therefore, can be satisfied only by collective, or social, action; as the building of roads, bridges, sewers, schools, the making of parks, and the providing of postal facilities.

Thus, to quote Davenport, man "has appetites for art, music philosophy. He desires comforts and luxuries, protection from the violence of nature, from the wrongs of men; and from the attacks of beasts and microbes. He wants his steak broiled and his clothes brushed. He likes to be preached to and sung to. He wants books and boats and laces, parks, theatres, and eyeglasses, chairs, balloons, railroads, panoramas, fortune-tellers, phrenologists, and humbugs. He wants the machines and inventions and tools and processes by which his primary wants are helped towards satisfaction. Look at the price-currents, the tariff-schedules, the inventories of stocks in trade, or the advertising pages in the daily paper, and you will get some notion of his manifold desires. He wants also love and pity and respect and place, and sometimes these also are bought and sold on the market."

Economics, however, does not concern itself with all these human wants. It deals only with those wants which impel him to secure a livelihood.

Professor Seager enumerates five characteristics of these economic wants. The first is that they are indefinitely numerous, which we have just seen to be the case. Secondly, they vary in degree of intensity. Some things man wants more than he does others. In the third

place, any particular want lessens in proportion as it is gratified. "A healthy American boy, for instance, given a breakfast of unlimited buckwheat cakes, attacks the first plateful with great avidity. His eagerness is reduced by each additional plateful, until his hunger is satisfied and he must reluctantly confess that he has had enough." A fourth characteristic is that, since the normal man lives in the present, he will make greater sacrifices to insure the satisfaction of present than of future wants. This is especially true of young children and people more or less primitive in their intelligence, as in the case of a negro family, who, when told on Monday that they would be turned out Saturday unless their rent was paid, agreed that they needn't begin to worry till Friday! Lastly, most wants are determined by social standards of taste rather than by the independent judgments of the industrial consumers. This is particularly so of clothing and forms of amusements, but it is likewise true of such things as public and private buildings.

The Relation Between Wants and Human Progress.

In speaking of the universality of wants we quoted a statement of Professor Seager's to the effect that no sooner is one desire gratified than another takes its place. No statement could be truer or more profoundly significant. Most economists have commented on this fact. Marshall quotes approvingly a hint dropped by Jevons that "the satisfaction of a lower want permits a higher want to manifest itself." And Professor Bullock declares that "progress in civilization depends upon the awakening of such higher wants. With a progressive people, therefore, the satisfaction of existing wants serves merely to arouse new desires, and to stimulate men to attempt to satisfy them."

The history of the race shows this to be true. At one time man cut his wheat with a hand cycle, threshed it with a flail, and ground it into flour between two stones. Nowadays three wonderful machines—the harvester, the thresher, and the flour mill—perform these three operations in immeasurably less time. A succession of wants has made the difference. Not long ago for a man to step across the borders of his own country, especially if he crossed the seas, meant that he was practically lost to his native land for months and even years at a time. Recently, during ex-President Roosevelt's hunting trip and visit to the great European centres, we might almost literally have said that, owing to the telegraph and the daily newspaper, he was scarcely out of our hearing, even while he chased the elephant in the African jungle. To a human want do we owe this marvelous progress. Once on a time even great monarchs signed their names with a cross. Today the man or woman who cannot both read and write fluently his mother tongue is all but a curiosity. This, too, is due to a want. A hundred

years ago the limit of one's speed in going from place to place was the gallop of a horse. The desire in man for greater speed produced the steam engine and the steamship by which one may go from Liverpool to Salt Lake City in less than nine and a half days. And in June of this year (1910) we read that Count Zeppelin carried twenty persons three hundred miles in nine hours in an air ship!

The development of the normal man from infancy to the highest individual efficiency is due to a similar succession of wants. At birth and for some time afterwards "the child needs nothing but a little milk and a warm covering; but soon he requires more varied food, more complicated garments, and toys; each year gives rise to new needs and desires. The more he learns and sees, the more numerous and intense are these desires." He wants more and yet more wealth; he desires greater and greater intelligence and power; he wishes every year for higher and higher place among his fellows; he yearns for ever-increasing efficiency in the work of the hand, the head, and the heart. And this is his salvation.

Nor is nature making a dupe of us by giving us a want and allowing us to gratify it only to supplant it by another want. She is merely employing a simple means by which we are led to higher things. The forces above and around and within us are merely turning our wants into the instrument of our upliftment in the world. It is therefore by no means wrong to be discontented with our lot. All depends on the kind of discontent it is. A boy who does not want an education will never get one. He will thus always remain in ignorance, not knowing what he missed. But the moment he grows discontented with his condition and exerts his will, that moment the way is opened for his unlimited progress. Farmers in Palestine still plow with a crooked stick, because they have not wanted for a better way. It would not be difficult to imagine what our present stage of civilization would be if our ancestors had been complacently satisfied with the horse, the camel, and the sailing vessel as means of locomotion on land and sea, with picture-writing as a means of conveying thought at a distance, and with the crude agricultural implements that we find now only in the museums of the nations. Thus life, individual and national, is the getting of a want of the right kind and then the struggling for a means of gratifying it.

Utilities and Wealth.

Whatever satisfies a human want is said to possess utility; and to such things political economy applies the names "utilities" and "goods." There are goods, however, with which economics does not concern itself, such, namely, as do not deal with the subject of procuring a living. "Health, friendship, knowledge, and moral worth are among the supremest good; but they fall primarily to the province of the physician, the teacher, or the moralist—not to the economist,

who has occasion to consider them only in so far as they bear on the main subject of his inquiries, the production and use of the things that constitute a livelihood. Material commodities and personal services are the objects of all economic activity, and it is of these utilities that economy treats."

This want-satisfying power on the part of commodities may arise in any of four ways. Raw materials, like timber, has "elementary" utility. When the trees become lumber they acquire "form" utility. If the lumber be taken from the mill to where it is used for building purpose, it takes upon itself "place" utility. The ice man who stores ice in the winter and sells it in summer thereby gives this commodity "time" utility.

The term "wealth," which is an important and oft-recurring word in economics, is also applied to those "services and commodities that are the objects of all industrial effort." For this reason political economy has often been defined as "the science which relates to wealth." Adam Smith called his great book on the subject the "Wealth of Nations." Now, however, especially in the United States, emphasis is being placed more and more on the activities of man in his business pursuits rather than on the objects of those activities. And so economics is now generally called the social science of *business*. Professor Seager defines it as "the social science which *treats* of man's wants and of the goods (that is, the commodities and services) upon which the satisfaction of his wants depends."

Though man can create utilities, that is, make things useful, he cannot create material things. In other words, when he is said to produce material things, it is always understood in economics that he only produces utilities. His efforts and sacrifices merely result in changing the form of arrangement of matter to adapt it better for the satisfaction of his wants.

Importance and Value of Economics.

Concerning itself, as it does, with the activities of man in the business of gaining a livelihood—"how he gets his income and how he uses it,—economics thus becomes one of the most important studies that can engage our attention. "The two great forming agencies of the world's history," says Marshall, "have been the religious and the economic. Here and there the ardor of the military or the artistic spirit has been for a while predominant; but religious and economic influences have nowhere been displaced from the front even for a time; and they have nearly always been more important than all others put together. Religious motives are more intense than economic; but their direct action seldom extends over so large a part of life. For the business by which a person earns his livelihood generally fills his thoughts during by far the greater part of those hours in which his mind is at its best; during

them his character is being formed by the way in which he uses his faculties in his work, by the thoughts and feelings which it suggests, and by his relations to his associates in work, his employers or his employes."

But economics is far from being the sordid pursuit which it has sometimes been ignorantly represented to be. Though it deals with wealth it does not inculcate the love of wealth. It does not plant the love of wealth in human minds; "it finds it there, a strong, native passion, which, but for enlightened views, is likely to break out into private rapine and public war."^a The study of economics, therefore, "tends to quicken the love of justice and to encourage sanity and moderation of view concerning the value of material wealth."^b

Why should we study political economy in the Improvement Associations?

It might be asked with equal relevancy, Why should we study anything? Man is a thinking and knowing, as well as an acting, animal. In this power to think and to know lies the chief, the distinguishing, difference between the highest man and the highest brute. And the main business of personal effort is to extend this difference by as wide a gulf as possible. The American Indian, whose whole circle of wants included only, "Eat it, smoke it, sleep it, and more eat it"—was not far removed, if at all, from his four-footed companion. But a Newton discovering and stating the law by which bodies in the universe do not fall asunder into confusion and violence; a Darwin, collecting millions of separate and apparently dissociated facts in the animal and vegetable world and from them deducing a law of universal progress; a Shakespeare moulding out of the materials of the imagination a strongly individualized character like Hamlet, or Macbeth, or Lear—these all testify to what splendid heights man may attain by the larger cultivation of thought and imagination. The greater our knowledge, the greater our power, and the more serviceable we can be to ourselves and our fellows. Hence, the training of the mental powers by wrestling with intellectual difficulties is the duty of everyone who calls himself a man. Now, economics, being a body of organized facts and generalizations, affords excellent opportunity for cultivating the mind and whetting the appetite for a wide range of knowledge.

But there is an additional reason why political economy should be considered in the Improvement Associations. Economics, as we have seen, is the study of man as an earning and spending creature. The material, therefore, with which this science concerns itself is more or less familiar to everyone in our organizations. But the information possessed by the average man on this subject is far from satisfactory. It is not only disorganized, but extremely hap-hazard—a bit of ex-

^a Walker.

^b Bullock.

perience collected here and another bit there, without any reference to foundational principles. All this where it ought to be systemized and well-ordered according to established laws. For if there is any subject calling for the guidance of well-founded principles to which can be referred any particular event or idea when it arises, it is on that subject which concerns matters of daily happening. Now the acquisition of a new want, the laws that govern wages, why some men are poor and others rich, how one may become more efficient, the question of high prices, whether prohibition is a good thing, the competition between women and men in the vocations, whether increase of wealth cannot be brought about by increase of money, the ever-recurring question of the tariff—these and hundreds of others that we shall concern ourselves with in this manual ramify into the occupation of every man in the land. They are questions with which he has to deal at one time or another, in one form or another; and he can deal with them far more intelligently, and therefore effectively, if he know something of the general principles underlying them. Anyone, therefore, who will devote himself attentively to these lessons on economics will find himself at the year's end, taking a new or an increased interest in the grave problems that confront every thinking citizen of our Republic, and be the better able to help in the solution of them than he could otherwise hope to be.

SUMMARY.

1. Men work in all but a few cases because they want consumable goods.
2. There are two kinds of wants—existence wants and cultural wants.
3. Economics is concerned only with those wants which impel man to secure a livelihood.
4. Individual and racial progress depends upon getting a new want and then struggling to satisfy it.
5. Whatever satisfies an economic want has utility. Wealth is whatever has utility.
6. The study of economics is necessary because it enables us intelligently to deal with the concerns of business life.

QUESTIONS.

1. What are men's motives for working? The main motive? 2. Name and explain the two kinds of human wants. 3. Name the five characteristics of wants. 4. Is it right or wrong to want things? How often should we have a new want? 5. What is economics? Goods or wealth? Utility? 6. How many kinds of values are there? 7. Does the study of economics make us sordid? 8. What do you expect to get out of the study? 9. In what way will the study of economics make us better citizens?

LESSON 2.

Human Wants: How they are Satisfied.

In the preceding lesson we learned something about how our wants grow, and the kinds of wants we have in life. We learned especially how important it is that we have wants, how degenerating it is not to have a new want, and that our progress, individual and national, depends upon the kind and intensity of our wants and a struggle on our part to gratify them. In this lesson we shall be concerned with the ways in which our wants are satisfied and the value of economy in the consumption of wealth.

Meaning and Importance of Consumption.

"To consume wealth," says Gide, a French economist, "is to utilize it for the satisfaction of our wants, to apply it to the uses and purposes for which it was produced. Consumption is, therefore, the ultimate aim of all economic activity,—of production, exchange, and distribution."

Professor Bullock quotes a French writer to the effect that "the human race * * * could increase its welfare almost as much by a better ordering of its consumption as by an increased production of wealth, and this without any real retrenchment in consumption."

Nor does this seem at all improbable when we consider the nature of the subject. The wealth of the next generation will be determined by the use which is made of it by this generation. Hence, it does not so much matter, so far as future greatness is concerned, how much wealth we have now, as what habits we form in spending this wealth. It is the tendency in each generation that must be taken into account, when we concern ourselves with human progress.^a

The subject of consumption, therefore, is extremely important as affecting the welfare not only of our own generation but of future generations as well.

Does Spending Help Business?

A boy accidentally throws a stone through a window. The shopkeeper is enraged because his son has been so careless. A spectator remarks consolingly: "Well, everybody must live, you know. It's

^aSee Walker's "Political Economy," p. 292 and following.

only another job for the glazier." Or a house burns down. The same remark is likely to be made by any one of the hundreds who have come to see the blaze: "Some more work for the carpenters, the bricklayers, and the rest." Or, again, a rich lady gets a new dress for a charity ball. While there may be many who think it would be better for her to give the price of the dress to the ball fund, they comfort themselves with the reflection that it helps to support the dressmakers, the merchant, the manufacturer, and the producer of the raw material.

This view receives apparent confirmation in what happens after the breaking of the window, in the work of the seamstress, and in the labor of men on the new building. These various classes of workers are given employment. But that is not all. The glass manufacturer, the lumberman, and the manufacturer of fabrics are put in the way of producing more glass, lumber, and cloth by reason of this demand. "One may admit," we are sometimes told, "that the spendthrift and the drunkard act foolishly by emptying their purse and ruining their health, in which case it is their loss; but the ill wind blows somebody else good; for their misfortune is to the advantage of others—namely, the merchants, the laborers, and the producers who receive their money and profit thereby."

All this reasoning Professor Ely calls the *seen*.^b But fortunately there is another side to the question—an *unseen* side. Maybe, had you gone to the shopkeeper's you would have seen that but for the broken window the wife would have had a pair of new shoes; had you gone to the dressmaker's you would have seen her at work on some other dress than the one which the rich lady wore to the charity ball; or had you looked up those carpenters, hodcarriers, and masons, you would have seen them busily engaged on some other building. Besides, in all three cases the money spent in the manner indicated would have gone into other channels of productivity. Then, too, the shopkeeper spends his money on the broken window and gets neither more nor less for it than he had before; whereas, but for the unlucky stone in the boy's hand, he would have been in the enjoyment of the pane of glass and his wife have been the richer by a pair of shoes.

So it is not true that this sort of spending is necessarily profitable. If it were, the rich spendthrift who broke his wine glass after every drink on the pretext of creating more work for glaziers, would be among the greatest benefactors to society. But it is not true. The whole train of reasoning is erroneous. "Spending is beneficial when it turns capital and labor from relatively unproductive channels into those that are more productive; if it does the opposite, it is economically harmful."

^bIn his "Problems of To-day," a popular treatise, chapter xv.

What and How to Consume.

Consumption, of course, is necessary. Otherwise there would be no production. When men no longer eat bread, they will quit planting wheat. But goods, in the economic sense, should be consumed according to an economic law. That law requires two things.

(1) We should know the most advantageous uses to which a good may be devoted.

Some expenditures are pernicious in their effects on those who indulge in them, and unfit the persons for rendering to society the highest service of which they are capable. Such, according to the belief of the Latter-day Saints, is money used for the purchase of tea, coffee, and tobacco; and such, according to the belief of all civilized peoples, is any expenditure for alcoholic beverages. Is the consumption of those things forbidden in the Word of Wisdom increasing or decreasing among the Latter-day Saints? This is a question that concerns us no less economically than religiously, since it tends to establish a habit of consumption that will not only decrease the efficiency of those who indulge in them but also increase the burdens of succeeding generations. We know from statistics that intemperance is until very recently has been growing in the nation, and intemperance is a great economic problem. According to the United States census of 1900, "the capital invested in the production of all kinds of alcoholic liquors was over \$457,000,000, and the annual product was valued at about \$340,000,000 * * * * *

Carroll D. Wright estimates that the 161,483 places or establishments in the United States which pay a federal tax to engage in the traffic have a capital of nearly \$960,000,000, in the hands of 191,000 proprietors or firm members, with nearly 242,000 employes." The direct expenditure, economically, of labor and capital "is insignificant when we consider the incalculable loss through disease, incapacity for work, insanity, crime, and suicide due to drink." Two remedies have been suggested, (1) private initiative and propaganda by means of temperance societies and (2) government intervention, limiting the number of saloons or forbidding the rum-traffic entirely.

Other forms of consumption, not in themselves pernicious, may nevertheless be questionable. We refer to luxury. It is often hard to tell what a luxury is. To say that a man is reduced to his last shirt is now a forcible way of saying that he is poor. And yet this article of clothing, necessary enough to us, would be an extravagant luxury to certain tribes in Africa whose full dress consists of a string of beads around the neck. Some luxuries, to use Voltaire's Irish bull, are extremely necessary. They tend to develop finer tastes and the finer arts, and may thus produce beneficial effects. Nevertheless, in any given case and at any given time, we find little difficulty in saying of a

certain expenditure that it is or is not a luxury. We do not judge by the amount of money spent, but by the proportion between the sacrifice involved and the results. Thus one man spends \$1,500 on himself, another spends the same amount in sending one hundred boys from the slums of New York City to the West, where most of them become honest, respectable, hard-working citizens, who all their lives long furnish opportunities for labor in the commodities which they purchase. "Excessive luxury is a violation of the moral obligation incumbent upon the possessor of wealth to administer his property as a trust for the welfare of society."

A form of luxury which needs considerable attention nowadays with us is amusements. Our human nature of course craves diversion, amusement. But in some communities amusement is indulged in, amounts of time and money are spent, out of all proportion to what the young people can afford. There are things in life more important than to be amused. Yet our resorts and other places of entertainment would indicate that amusement is the vocation of a great number of our youth.

(2) It is necessary to exercise economy in the application of goods to the purpose chosen. Professor Bullock thinks that probably more loss results from wastefulness in applying goods to a given end than in undesirable consumption. Families "whose incomes range from \$200 to \$1,200 per year, spend from 60 to 90 per cent of their incomes for the ordinary household expenses of rent, fuel, light, and clothing. These expenses, as a rule fall to the wife and mother." Economy here depends, therefore, upon the skill and intelligence of the women who administer household affairs.

"It has been demonstrated that there is a great deal of waste in family consumption, the real extent of which is not at all appreciated. The chief item of loss is in connection with the expenditures for food. If we place the average income of an American family at \$500,—and it will not greatly exceed that figure,—then nearly \$250 of this amount is expended each year for food. Waste occurs in any or all of the following ways: (1) Needlessly expensive foods containing little real nutriment are used; (2) there is failure to select the foods best suited to the needs of the family; (3) a great deal is thrown away which ought to be utilized; (4) bad preparation of the food causes it to lose much of the nutriment which it does contain; (5) badly constructed ovens diffuse heat, instead of confining it, and cause an enormous loss of fuel. We should state less than the truth if we estimate that fully one-fifth of the money expended for food is absolutely wasted, while the excessive expenditure often fails to provide adequate nutrition. In this manner, ten per cent of the income of the average family is

uselessly squandered. This means a waste of \$50 out of each family income amounting to \$500."^c

Destruction by fire forms another source of economic waste. People are loath to abandon the methods employed by "combustible architecture" for those of slow-burning or fire-proof construction. In 1886 the property destroyed by fire in the United States was valued at \$100,000,000. Nine years later the amount was \$150,000,000.

Saving and Investment.

We have seen that spending is not necessarily profitable economically, not only because it may be an expenditure for injuries or injudicious articles of consumption, but also because there may be merely an apparent good result arising from it. On the contrary, saving, which seems to be the opposite of productive, may be the best possible way of spending. Of course, we do not mean the old-fashioned way of storing up either money or useful commodities in such a way that they remain idle. This is hoarding, and may be a very bad way of providing for the future. Even hoarding, however, need not necessarily be expected, since money or goods cannot be hoarded forever. At bottom, we repeat, saving may be spending. Let us see how.

Nowadays men save wealth mainly by investing it in some productive enterprise. The investment may be direct, as when we buy stock in a sugar company or in a tomato factory, or indirect, as when we put out money in the bank, which in turn lends it to the promoters of these and other business enterprises. The purpose of this is that we may add to our permanent income. At least one American millionaire tells us that he hurried to save and invest a certain amount so as to have the gratification of realizing that two pair of hands were working for him—his own and another's represented by his investment. Investment, therefore, is the very opposite of hoarding. Instead of withdrawing a given amount of money from circulation, it puts the money where it can aid in the production of wealth. "Saving, then, usually means spending; but it means spending for the future, not for the present. Saving means, therefore, not a decrease in the demand for commodities; but usually a demand for future goods instead of present goods, for the tools and materials necessary to future production than for the products of present or past industry."

"Two reasons make saving a desirable habit in any people. First, it cannot be repeated too often that the first economic duty of every man is to make himself a self-supporting, independent member of society. In order to do this it is necessary to save the means for supporting one's self in times of sickness or lack of employment, and also

^cBullock, who is quoting from Atkinson's "Science of Nutrition," and Atwater's "Food Waste in American Households."

to make provision for old age. Saving may also be necessary in order to maintain the unity of the family upon the death of the father. But a second powerful reason makes saving a desirable thing. Modern economic life depends upon the extensive use of capital in production. Through the means of capital, man is gradually subjugating nature and substituting natural forces for human labor. Economic progress demands the constant creation of new capital, and capital-formation involves a willingness to prefer future goods to those which contribute alone to present enjoyment."^d

Every young man should very early in life form the habit of saving. He may not have very much to save at the start. That does not matter, the savings will grow if only he begins. The beginning is the main thing. "A young man should learn to economize and save till he gets a start," declares an able Utah financier. "He must learn that there are many things he must do without for a time. He must do this if he is to save at all. And he cannot get a start in business till he begins to save. The old saying is still true, that living ten cents under your income is happiness, ten cents over it is misery. Every young man, therefore, no matter, how small his income, ought to save something out of it every month. And he should do this till saving becomes a habit, till it becomes second nature to live within his means."

And then he should invest his savings, so that they shall earn something for him while he sleeps. There are plenty of opportunities to do this. First of all there is the bank. A savings bank will take as small a sum as one dollar, and what young man cannot afford to start a bank account when it requires only one hundred cents to begin one? And when, by constant and regular additions, these bank savings have grown to something like a snug sum, they may be taken out and invested in something that will yield more than the bank's four per cent. Similarly there are abundant opportunities to do this in every city, town, and village. Factories are being erected, public enterprises started, and towns bonded, and one may obtain shares or bonds often for comparatively small amounts. And besides, money thus invested benefits the community in a two-fold way: first, by the mere investment, and, secondly, by keeping the interest at home.

Finally, it is necessary to watch the investment. The financier whom we quoted above has this to say under this heading: "I myself," he said, "invested in sheep and let them out to others. One day I learned that the man who had them was on the verge of a business break-up. I took the sheep away and put them elsewhere. About a year or two later the man failed and my money was saved. On another occasion I discovered that another man who had my sheep was

^dBullock's "Introduction to the Study of Economics," p. 109.

speculating. I took the sheep away from him. Pretty soon he went under, and I was saved again. And so a man has to watch every investment. There's no use having money out if you don't watch it. Of course, every man is liable to make a mistake—the most careful men sometimes do. I know a shrewd man who bought some stock in a bank at one hundred dollars a share, and sold it soon afterwards for the price he paid for it. Now it is worth seven hundred and fifty dollars a share. Besides, it would have been earning good interest all the time. It pays to watch an investment."

Of course, it will not do to carry the desire to save too far. There are some so-called moneyed men in the world the blood in whose veins, if they were opened, would be found to have turned to a white pur, so excessively saving are they.

SUMMARY.

1. We could almost better increase our welfare by reforming our use of goods as by increasing production.

2. Spending does not necessarily create business; spending must be productive.

3. In consuming goods we must, (1) know the most advantageous uses a good must be devoted, and (2) to economize in the application of a good to the purpose chosen.

4. To save means to invest, to prefer future to present goods, and is a duty.

QUESTIONS.

1. Why is consumption of goods so important? 2. Does spending make business? Why? 3. What is meant by knowing the advantages to which a good can be put? 4. Explain how we waste things in the home. 5. What is saving economically? Why save? How?

LESSON 3.

Land.

The subject of political economy can conveniently and appropriately be studied under four subdivisions: production, exchange, distribution and consumption. In the three following lessons we shall discuss production under land or nature, labor or man, and capital.

In this lesson we shall consider the first of these, land or nature.

Many writers on political economy use the term 'land,' but nature seems a more appropriate title, because the subject embraces all natural agents of which use is made in the production of wealth. Great care should be exercised, therefore, not to confine the term "land" to the narrow meaning usually applied to it.

It has reference not more to tilled fields than to pastures and meadow, forest and mine. It means the sum total of those elements and productive forces that are furnished by our natural surroundings. It means the surface of the earth and the materials above and beneath it. It includes the bodies of water and all they contain.

The principal natural forces which aid in production, as at present carried on, are the force of gravity, the vital forces that cause the growth of plants and animals, the expansive force of steam, the explosive power of gases, and electrical forces. Only within the last two centuries has systematic progress been made in directing nature's forces toward human ends, and so wonderful have been the results already achieved, that the attention of economists has been shifted from the problem of production, which seems in process of happy solution, to the problems of distribution, which become rather more complex.

The principal ways in which land assists in production may be enumerated as follows:

- (1) It affords support for man and the buildings, etc., he erects upon it.
- (2) Its extension permits movement of men and goods from place to place.
- (3) Its geographical features, mountains, rivers, valleys, bays, etc., aid in many ways.
- (4) It supplies the materials—mineral, vegetable, animal—from which all commodities are made.
- (5) Each portion of it enjoys its share of summer's heat and

winter's cold, air, sunshine, and rain, without which no form of life could long continue on the earth.^a

The Supply is Fixed.

All the natural agents at the disposal of man seem to be fixed quantity. It is not within the power of mankind to add anything to the sum of the natural agents which are subject to human uses. Men may indeed discover resources in nature not previously known. They may increase the dry surface at the expense of the water surface, as when a great part of Holland was redeemed from the ocean by dikes, built by prodigious labor; as when swamps are drained and made fertile fields. But the use of land involves a necessary and certain loss, which, so far as science enables us to see, is permanent and irretrievable. Under prudent management the loss may be very small, while recklessness, greed and ignorance may turn that necessary loss into prodigious waste. Many of the once fairest lands on earth, which supported large populations in affluence, are now little better than sterile deserts, owing to man's abuse of nature.

The American nation has been wantonly wasteful of its great natural resources. One of the highest expressions of enlightened statesmanship is the present attitude of the federal government toward this subject. The strongest proof of an awakening to the results of such reckless extravagance was the convention of governors at the White House in May, 1908. This noble assemblage was animated by a spirit of true patriotism, business sense and high statesmanship. In the resolutions adopted by the convention it declared that the judicious conservation of our resources must be the first problem in a sane national policy.

Before the convention, President Roosevelt declared that there was no other question of greater gravity than this. He said: "Disregarding for the moment the question of moral purpose it is safe to say that the prosperity of this people depends upon the energy and intelligence with which our resources are used. It is clear that these resources are the final basis of power and perpetuity of any people. It is ominously evident that these resources are in course of rapid exhaustion." A very little reflection convinces us that this is a subject of transcendent interest to us and to those who come after us.

To transmit to our children as an inheritance, a land robbed and impoverished as a result of our ignorance and greed would be a most serious reflection upon our statesmanship. Our natural resources ought to be conserved and increased. Looking to this desirable end there has been created by law, National and State conservation commissions.

^a Seager, page 62.

The members of our associations should actively interest themselves in this commendable movement.

The question may be asked, How can anything be wasted or lost if the modern scientific law known as "the conservation of energy" be true? How can any force be lost out of nature? The answer is, No force can be lost, but force may by purpose or accident, be changed from forms in which it is useful to mankind into forms in which it is useless to man, and even to forms which are injurious and destructive. A house may be burned down and pass off in heat and smoke, leaving nothing behind it but a heap of ashes. There is just as much force in the world, but one house less. Almost any article of food may be changed into a more or less virulent poison. The mere dissipation and scattering of substances may deprive them of their uses.

Laws of Diminishing Returns.

This is one of the great underlying principles in the study of political economy and must be mastered if the student is to make satisfactory progress in the subject. Briefly stated the law is, "that after a certain point has been passed in the cultivation of an acre of land, increased applications of labor and capital yield less than proportionate return in products, it being understood that no important change be made in the method of cultivation." Walker gives the following explanation:

The Great Law of Agricultural Production.

In any given condition of the art of agriculture, there is a limit to the amount of labor and of capital which can advantageously be expended upon a given area of land. If, after this limit has been reached, more laborers are employed, each will have to be content with a smaller quantity of produce at harvest. And, in the same way, if more capital be expended upon the land, each dollar of capital—whether in the form of horses, or carts, or oxen, will make a smaller addition to the crop of the year than a dollar expended before the point of diminishing returns was reached. We shall sufficiently illustrate the principle if we confine our view to applications of labor, assuming the amounts of capital to increase correspondingly with the number of laborers.

Increasing Returns.

Let us suppose that ten laborers, with a certain outfit of tools and implements, are engaged in cultivating a hundred acres of land producing 2,000 bushels of wheat a year, being twenty bushels per acre, and two hundred bushels per capita. Now, let it be supposed that two new laborers appear and join themselves to this company. What will

be the crop of that year for the united twelve, assuming agricultural conditions constant? Will it be 2,400 bushels, or more, or less? The answer to this question will depend upon whether the point of diminishing returns has been reached with the original ten laborers, or not. If not, the crop of the new year may be not merely 2,400 bushels, but even more, say 2,500 bushels, the twelve laborers to raise more, per man, than the ten could do.

Diminishing Returns.

But if the limit indicated had been reached when the ten were laboring together upon the land, the new crop will fall short, much or little, of 2,400 bushels; and consequently, each of the twelve laborers will have to be content with less than 200 bushels. Let us suppose the crop to amount to 2,280 bushels, each acre producing 22.8 bushels. Each man will, then, receive 190 bushels as his share.

Now, let it be supposed that three additional laborers are received into the company. Will the crop now be 3,000 bushels, or 200 bushels per man of the fifteen? Clearly not. Will it prove to be 2,850 bushels, 28.5 bushels per acre, giving each man 190 bushels as his share, as before? Not if the industrial character of the laborers and the knowledge of the art of agriculture undergo no change. If twelve laborers make the land yield but 22.8 bushels per acre, the fifteen can not make the same amount of land yield 28.5 bushels per acre. The crop will be something less than that: say, 27 bushels per acre, which would give each man 180 bushels.

If, again, we suppose five additional laborers to join the company the crop will not be 40 bushels per acre, as would be necessary in order to give each man 200 bushels, which the original ten received; or 38 bushels per acre, as would be necessary in order to give each man 190 bushels, which the first twelve received; or even 36 bushels per acre, as would be necessary in order to give each man 180 bushels, which the first fifteen received; but the crop could not be forced by the labor of twenty laborers above, say, 32 bushels per acre, which would give each of the laborers 160 bushels.

In like manner, it would be found that, however far the accession of new laborers were carried, each new arrival would result in reducing the quantity of grain which each laborer of the entire body could obtain by a year's work. This reduction of the per capita produce would go forward, at first slowly and afterwards rapidly, until the result would be reached, that, whereas the original company lived comfortably, or even luxuriously, the forty or fifty who had come to work on the same area would be found living wretchedly, perhaps reduced to the verge of starvation.

This Condition is Universal.

About the universal application of this condition there can be no intelligent question. There is not an acre of land on the face of the earth on which 60 and afterward 120 bushels of wheat can be raised by the application, first of twice, and afterward of four times, the amount of labor needed to produce 30 bushels. At some time in the progressive cultivation of every field, sooner or later, according to the state of agriculture, a stage will be reached after which every successive increment of the product will be obtained only through a more than proportional expenditure of labor. This condition applies, not only to the cultivated field, but to grazing lands, to the mine, the forest and the sea. It governs the cost of producing fish and whale oil; fuel and timber for manufacturing; coal, iron and copper, for the furnace and the forge; wool for clothing, and the carcasses of cattle and sheep for food."^b

Unless this were true, every additional hand on the old farm would add his proportion to the produce and it would support hundreds of families as well as one. The existence of this condition cannot be disputed. Every time a body of people leave an old country and move to a new one, fresh testimony is paid to this law. The law holds for manufactories, office buildings, etc., although the law manifests itself much sooner in some industries than others. For example, in agriculture a farm of 40 acres may permit an investment of \$10,000 in fixed capital, and an annual outlay of \$1500 in actual cultivation, while the same amount of land might accommodate steel works that would represent a total investment of \$10,000,000. With office buildings an investment of \$3,000,000 per acre might be profitable in large cities. Yet to all of these the same law applies. The only difference is the extent of investment that can be made before diminishing returns appear.

Causes Which Set Back the Point of Diminishing Returns.

If improvements in cultivation take place, these will not change the law, but they will change the point at which the law begins to apply. One hundred years ago it was universally believed that if a piece of land were to be cultivated every year through a considerable period, it would become exhausted. Consequently it was held that one year out of three land should be allowed to lie fallow; that is, no demands should be made upon its productive essence. Subsequently, the principle of the rotation of crops was discovered. That principle is this: Different crops do to a certain extent draw different elements from the soil. Crop A takes element A; crop B, element B; crop C, ele-

^b Political Economy, page 35.

ment C. Consequently a piece of land which has been cultivated one year in crop A and B rested while producing C the third year. The discovery of this principle would clearly change the point of diminishing returns. A community cultivating 6,000 acres would, under the old conditions, cultivate only 4,000 in any given year. Now, with the rotation of crops, 6,000 acres may be cultivated every year. One hundred years ago land of the most highly civilized countries was cultivated by means of shabby little plows, consequently the soil was cultivated only to a slight depth. Little by little plows were made larger and stronger, bringing up the soil from greater and greater depths. This would greatly extend the point of diminishing returns. Again the introduction of a new and improved vegetable species, yielding a large amount of fruit, would be practically equivalent to increasing the amount of land; that is, a larger number of laborers could get from the soil as good a living as the smaller number had before this change. In the same way the introduction of improved breeds of sheep and cattle might have the effect to remove the point of diminishing returns further off.

SUMMARY.

1. Political economy can most conveniently be studied under production, exchange, distribution and consumption.
2. The term land includes nature and all natural forces.
3. The supply of natural forces is fixed.
4. The necessity of caring for our natural resources has resulted in the creation of commissions.
5. The law of diminishing returns in agriculture is, that after a certain point has been reached in the cultivation of an acre of land an increased application of labor and capital, yield less than proportionate returns in product. The law is universal.
6. Improvement in agriculture, in plants and animals set back points at which the law operates.

QUESTIONS.

1. Define the term land as used in economics.
2. Explain the law of conservation of energy.
3. Name several ways in which the natural resources of America may be conserved? What is the federal government doing in this direction? Should the government withdraw all the unpatented coal lands?
4. Explain the great law of agriculture. Explain the law of increasing returns, of diminishing returns. Show the application of this law when people move to new countries. Why are sky-scrapers built in large cities?
5. How can the point of diminishing returns in agriculture be set back?
6. Is it the part of good statesmanship to maintain forest reserves?

LESSON 4.

Labor.

In this lesson we shall consider labor the second factor in the production of wealth. Labor is defined as human exertion of mind or body undergone with the object of creating utilities. Not all muscular exertion in this sense is labor. Often severe efforts are put forth for the admiration of bystanders. The sacrifices to which a boat's crew of young men will submit, the exertion which they make during long months of training as well as the tremendous physical struggles to which these lead are not labor in the economic sense. On the other hand the work of the professional ball team, whether in practice or contest, is labor because it is directed toward the satisfaction of a human want. Those sacrifices are submitted to in order to draw to their games spectators each of which pays his gate money for the pleasure of seeing an exhibition of high physical skill and force. A day's labor means a very different thing in different countries. Some men are able to do very much more work than others. One author said that an English wood sawer could do as much work in one day as thirty-two Bengalees at the same business and under the precisely same circumstances. An American bricklayer will lay three times as many brick in a day as a brick layer in England. A very wide difference exists as to labor power between individuals of the same country and the question naturally arises what causes these differences in industrial efficiency. The causes are numerous, but chief among them may be mentioned the following:^a

(1) Differences in Inherited Health and Strength.

No matter how it came about some men are born with a greater capacity for exertion than others. Whether this is the result of the influences of climate or other causes working in the past, if supplied during infancy and childhood with the same food and brought up in every respect under similar conditions some men have a greater lifting or pulling strength and are capable of far more prolonged exertion than other men. In every community there is a certain capability of labor inherited from the past and that inheritance varies widely in different countries and different races. In this respect compare the South Sea Islander with the Englishman or the Irishman.

^a This lesson is taken from Walker's "Political Economy."

(2) Food.

It is evident that food supply affects very powerfully the efficiency of laborers both during the period of growth and during the period of active exertion. For example, take three men of the same natural powers and feed one of them on the amount of rice which makes up the diet of the East Indian, the second on the scanty supply of potatoes and butter milk which makes up the diet of the Irish peasant, and the third on the great variety of vegetable and animal food which makes up the subsistence of the American farmer and laborer, and you will have widely different results in the three cases. Food is the fuel of the human engine. The stomach in the high sense is the furnace of the human machine. It is there all the powers generate which move the limbs in the severe and protracted exertion in the production of wealth, just as the engine derives all the power it has from the combustion of fuel in the furnace.

How Laborers are Underfed in the Old Countries.

It is very difficult for an American brought up in the midst of plenty, in a land where want is unknown, to realize how poor and mean is the subsistence of the greater part of the inhabitants of the world. As a matter of self interest it would not pay to keep horses and cattle unless they were proportionately better fed than are millions of our fellow creatures. The miserably inadequate diet of the people of China and India is known to all. I quote a few facts from the writing of the well-known economists regarding the food of the working classes of some of the more favored countries of Europe. Of the industrial classes of France it is said many French factory hands have never anything better for breakfast than a large slice of common sour bread rubbed over with an onion so as to give it flavor. At the same time it is said of the Netherlands that meat is rarely tasted by the working classes in Holland. It forms no part of the bill of fare either of the man or his family. From Belgium Mr. Packingham wrote: "Very many have for their entire subsistence but potatoes with a little grease, often bad. Even in England, which is the richest country of Europe, a large portion of the laboring classes are underfed. Of the peasants of Devonshire it is said the laborer breakfasts on hot water poured on bread and flavored with an onion, dines on bread and hard cheese, at two-pence a pound, and sups on potatoes or cabbage greased with a bit of fat bacon.

The poor law commission of 1833 reported that while the British soldier was receiving 168 ounces of food per week, and the public pauper was receiving 151 ounces, the agricultural laborers received 122 ounces. Now it goes without saying that when the laborer toiling from morning until night in the field receives less nourishment than

public decency will allow paupers, the laborer is underfed, and consequently must underwork.

3. Sanitary Conditions.

In order to secure the laborer's greatest efficiency, it is not only necessary that he should have an abundance of good food, but that there should be an ample supply of fresh air. The food which is taken into the stomach has to be digested and turned into blood; that blood must pass into the lungs and be there purified. Carbonic acid is to be thrown off and oxygen taken in from the air. But if the oxygen has been used up and the air is already laden with carbonic acid, that purification cannot take place. The man so situated becomes heavy and dull; his blood foul. Moreover, in unsanitary and unventilated rooms are to be found the germs of active disease which shorten life and impair physical activity.

4. Intelligence.

The three causes we have thus far given are physical, affecting the muscular power and endurance of the laborer. The cause now mentioned is mental. It is the laborer's intelligence which enables him to apply his bodily force with the greatest effect. How great a factor this is may be shown by the following:

a. The intelligent laborer requires a much shorter apprenticeship—less technical instruction. It is said that recruits in the army who could read and write learn their drill in one-half the time of recruits who can not read and write.

b. The intelligent laborer requires far less superintendence. Superintendence is always costly. If an overseer is required for every ten men engaged in a piece of work, the product must pay for the time, not of the ten, but eleven. If the overseer, as is most likely, gets twice the wages of a common laborer, then the product must pay for the time and labor of twelve men. The employer could, therefore, afford to pay his men 20 per cent more could they dispense with the overseer.

c. The intelligent laborer is far less wasteful of material. No product can be obtained by labor without the sacrifice of pre-existing wealth. Frequently the value of material consumed is greater than the amount paid in wages, sometimes five times as much. If, then, an unintelligent laborer is going to waste, spoil, or damage the material that is given to him, he will soon do more harm than his labor is worth.

d. The intelligent laborer can use delicate and intricate machinery to advantage, and he alone can. In many countries no machines are used in agriculture—only the simplest and coarsest of hand tools, because the workmen are too ignorant to use anything else. The United States is the only large country in the world, in which the ordinary laborer can be interested with complicated machinery. In manufactures

the difference wrought by intelligence and want of intelligence on the part of the working classes is even greater. In some parts of eastern Europe even the primary mechanical powers are not made use of. If the inhabitant wishes to lift a weight he does it by main force, instead of using the pulley, the windlass, or the inclined plane.

5. Cheerfulness and Hopefulness in Labor.

This cause is moral, affecting the will, which controls the physical and mental powers of the laborer. Cheerfulness and hopefulness in labor must grow out of self-respect and social ambition on his part, and personal interest in the work he is doing. It is here that we find the most powerful cause of differences in efficiency. Slave labor is always and everywhere ineffective and wasteful. Adam Smith said, a person who can acquire no property and does not own himself can have no other interest than to eat as much and work as little as possible. Energy is not to be called forth by threats and blows, but by hope, ambition, and aspiration. The whip can never reach the parts of man where lie the mainsprings of action. It is only when some passion of the higher nature—love, gratitude, or hope—is awakened, that man can render his best service. It is among free laborers that the greatest difference of efficiency is manifested.

Ownership awakens industry and frugality. Ownership is a powerful incentive to great effort. When the laborer feels that every stroke of his arm is creating value, which he himself and his children after him will enjoy, he goes gladly to his work at the first flush of morning, and the setting of the sun still finds him at it. The waste of muscular force is at its minimum. Nervous exhaustion comes late and slowly to him. One writer says, "Give a man the secure possession of a bleak rock, and he will turn it into a garden: give him a nine year's lease of a garden, and he will turn it into a desert."

Division of Labor.

We have thus far been speaking of the causes which produced differences in labor power in individuals. We are now to consider certain causes which give to large bodies of laborers, whether individually weak or individually strong, greatly increased power of production. We speak of what is called the division of labor. By this is meant the division of the process of producing a commodity into a number of small parts. Each laborer is entrusted with the performance of some one or two parts of the process. In this way the manufacture of a pair of shoes, a sewing machine, a watch, or a needle, may be divided into fifty or a hundred separate processes. This division has been carried so far in the modern factory that the reader is able to find for himself many illustrations of this minute subdivision of the work of production. The advantages are many and manifest. It assigns to each laborer a single process which he is called upon to repeat day after

day until he acquires great skill and dexterity in his work. It saves time which would be lost if the workman should be compelled to change from one process to another. It enables almost every one to find some work which he is able to do, although he may suffer some physical disability. Finally it reduces production to a series of comparatively simple processes which can easily be studied and often improved upon. In this way invention is stimulated.

Advantages and disadvantages of the division of labor are considered at some length in a subsequent lesson.

Conclusion.

Efficiency is a thing to be sought for in every life. The measure of every individual's worth, economically speaking, is his ability to do work. The man who can do the most of the highest kind of work in a given unit of time is economically the most valuable man. It goes without saying that every man should live up to his highest level. To live at a low level is to deaden every faculty for high thought and high feeling. It makes work a burden and life a drudgery. It needs no argument to convince us that it is the part of wisdom to adopt in our lives all that makes for joyous, efficient living. No better preparation can be made for this important end than the observance of the Word of Wisdom; and on the other hand no better endorsement of this great modern revelation can be found than a study of labor as a factor of production.

SUMMARY.

1. Labor is human exertion put forth in the creation of utilities.
2. Differences in industrial efficiency are due to inherited health and strength, food, sanitary conditions, intelligence, cheerfulness and hopefulness.
3. Assigning to each individual one or two processes in the manufacture of an article is known as the division of labor. It results in greater skill, saves time, stimulates invention, enables cripples to secure work which they can do.
4. The observance of the Word of Wisdom conduces to efficiency in life.

QUESTIONS.

1. Define labor. Show that efforts put forth by professional ball players in a league game are classed as labor. Why are not the severe efforts of the boat's crew called labor? 2. Name five important causes that affect industrial efficiency? What are the advantages of efficiency? How can efficiency best be secured? 3. Give (a) the advantages and (b) the disadvantages of the division of labor. Will division of labor produce an all-around manhood? Give the reason for your answer.

Note.—This lesson is taken largely from Walker's "Political Economy."

LESSON 5.

Capital.

The Origin.

In the two preceding lessons we have considered Land and Labor. The third great agency of production is Capital. Just as hydrogen and oxygen produce water, so land and labor produce capital. It is neither land nor labor, but is derived from the two and is a new thing, with properties of its own. The following illustration, which shows the origin and office of capital, is taken from Mr. Walker's "Political Economy," p. 62: "Take the case of a tribe dwelling along the shore and living upon the fish caught from the rocks jutting into the sea. Summer and winter together, good seasons and bad, they derive from this source a scanty subsistence. When fish are plentiful the people live freely; when their luck is bad they suffer privations and sometimes famine. Poor as the condition of life is, it is not likely to grow any better, unless some new force enters into the life of the tribe. But let us suppose that one of these fishermen, moved by a strong desire to better his conditions, undertakes to lay by a store of fish. Living carefully, he denies himself every indulgence, even at the height of the season, and thereby accumulates a store of dried food. As the dull season approaches, he takes all he can carry and goes up among the hills, where he finds trees whose bark can be detached by his rude tools. Again and again he returns to his work in the hills while his less thoughtful neighbors, who ate more freely than he during the fishing season, are now painfully striving to keep themselves alive. At the end of the dull season, during which efforts at fishing mean very little, he brings down to the water's edge a canoe, so light that he can carry it upon his shoulders, so bouyant that he can paddle out to the "banks," which lie several miles from shore, where in a day he can catch as many fish as he could catch from off the rocks in a week. The canoe is capital; the canoe builder is a capitalist." Now with this tribe famine is a thing of the past, their existence is secure, they have made the first long step toward civilization.

The Law of Capital.

"At every step of its progress," Mr. Walker declares, "capital follows but one law. It arises solely out of saving. It stands always for self-denial and abstinence. At the beginning savings are made slowly and painfully and the first items of capital have a power in exchange

corresponding to the difficulty with which they are secured. An ample year's subsistence forms the most important advance which a people ever made in their progress toward industrial prosperity. No subsequent step costs one half or one tenth as much. Many people never find themselves quite able to accomplish this. The people of British India can hope for no more in good years than to be carried into the next; while once in every four or five years a famine following a short crop, sweeps away many by sheer starvation or by fevers which feed upon the half famished population. Even in Ireland there was half a century ago a period two or three months long preceding harvest which was known by the peasantry as the "starving season."

Methods of Production.

Capital may be defined then, as the intermediate products which man creates for the purpose of using them in the production of finished goods. There are two methods of production, the direct and the indirect. If man will first devote himself to the manufacture of tools; if the farmer is provided with shovels and plows he may place seeds in the ground in such a manner as to secure a more abundant harvest. If he will first construct a water wheel or invent a steam engine, he may control the forces of water and steam and apply them to production which no amount of unaided human effort could possibly achieve. "One of the most urgent needs of a pioneer is fresh water. Having found a spring he may gratify his need by scooping up the water with his hand. This will be direct production. Or he may make a cup in which he can dip up by stooping once all of the water he can drink. Such a cup will be capital and the process the indirect one. Or he may fashion a larger vessel in addition to his cup with which he can dip up at once all the water he will require for a day. Or finally if the spring happens to be on a higher level than his cabin he may construct a trough of hollowed logs capable of conducting the water to his very door.

The force of gravity will now relieve him entirely of the task of carrying the water, and all he will have to do to secure an abundant supply is to keep his trough in repair."^a

These illustrations are typical of the advantages of the indirect processes of production. In all of these cases men adopt a roundabout method of satisfying their wants. They first produce tools and machinery, then utilize these instruments to secure want-satisfiers. Therefore, indirect methods of production are far more efficient than direct methods, because indirect production may enable him to utilize all the materials and forces of nature.

^a Seager.

"Since capitalistic processes add so largely to the productiveness of industry," says Seager, "the development of thrift, or a willingness to forego present gratifications for the sake of the future, is an important condition to progress. What is most needed is not a general development of thrift, for many individuals are already inclined to carry saving to the point of parsimony, but a development of it, or of the prudence and forethought on which it depends, among the working classes. Accustomed for generations to live from hand to mouth, wage-earners are only just beginning to appreciate how much the accumulation of property may contribute to their well-being. Its principal advantage for them, individually, is that it will serve to carry them over periods of unemployment without that loss in efficiency that is the most pitiful result of enforced idleness for men who have nothing to fall back upon. For the whole community the aggregate savings of a thrifty laboring population would cause a great increase in its equipment of capital goods, and a corresponding improvement in its industrial processes. On both accounts the development of providence and forethought among the masses is earnestly to be desired. Equally important are improvements in the conditions of wage-earners which will encourage them to save by rendering spending up to the full limit of their income less imperatively necessary."

Forms of Capital.

It has been common among economists to classify capital as fixed and circulating. Circulating capital is that which can be used but once, or in one round of operations. Its entire value passes over into the value of the finished product. The raw materials and partly finished goods used in manufacturing are examples of circulating capital. Fixed capital is capital which lasts through a succession of operations, only a part of its value passing over to the product with each use. The factory building, machinery, etc., are fixed capital. There is another classification, which divides capital into free and specialized. Specialized capital is that which, by its form, can be used for only one productive process, or at most, a very limited number of such processes. Free capital on the other hand, is capital which can be applied to any one of a considerable number of productive operations. Thus coal, iron, leather, are relatively free forms of capital, while railways, canals, and many forms of machinery, are specialized. The importance of this difference lies in the fact that free capital can more readily adjust itself to changes in the social demand. Thus if too great an amount of capital is converted into fixed and specialized forms, the mistake is not easily nor quickly corrected, and such an investment is believed by many economists to be the most important single cause of industrial crises.

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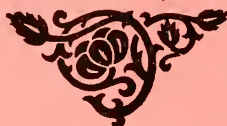
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Concrete Forms of Capital.

It may be helpful to enumerate some of the forms which capital may assume. A good classification is as follows:

- (1) Improvements upon land, such as fences, ditches and drains.
- (2) Buildings, such as barns, factories, or stores devoted to productive industries.
- (3) Means of transportation, such as roads, canals, or railways.
- (4) Raw materials.
- (5) Tools and machines.
- (6) Domestic animals used in production.
- (7) Money, weights and measures.
- (8) Books, instruments, and all others appliances used by others who render personal services.

Inducements to Save.

Capital may safely be considered the result of abstinence as well as production. But the word "abstinence" as here used signifies abstaining from present enjoyments in order to secure some future end.

It does not imply that a rich man has to live abstemiously to acquire capital; but it does mean that he refrains from purchasing a new yacht when he invests his income in a productive enterprise. A considerable part of the capital necessary to keep industries moving comes from the poor, and from the middle classes who are obliged to practice rigid economy and self-denial.

The amount of capital that is brought into existence through the sacrifice of the present for the future will depend upon the inducements offered.

Security of invested capital is the most important inducement.

A high rate of interest on investments is a second stimulus, while a third inducement is a desire to provide for old age, or the comfort of one's family.

Savings institutions and other facilities for the investment of capital—all have a tendency to encourage thrift and economy. In 1820 there were 8635 depositors in savings banks in the United States. In 1903 there were 7,305,228 depositors, and their savings amounted to \$2,935,000,000. Trust companies and life insurance companies have stimulated the growth of capital.

SUMMARY.

1. Capital is derived from land and labor, but is neither.
2. It stands for self-denial and abstinence.
3. It is the intermediate products which man creates for the purpose of using them in the production of finished goods.

4. The indirect method of production enables man to take advantage of the forces of nature. This is sometimes called capitalistic production.

5. Fixed capital is capital that lasts through a succession of operations, while circulating capital can be used but once. Industrial crises result from too much capital being converted into fixed or specialized form.

6. Abstinence means refraining from present enjoyments in order to secure future goods.

7. The inducements for savings are the security of invested capital, interest, desire to provide for old age and family, and savings institutions.

QUESTIONS.

1. Compare the condition of the tribe spoken of before the manufacture of the canoe with its condition after. 2. Show the advantage of the indirect method of production. 3. How would the industrial conditions be affected if too much capital is invested in railways? 4. How does insecurity of invested capital affect savings?

LESSON 6.

Co-operation and Business Organization.

In lesson four we discussed the qualities which make for individual efficiency in the production of wealth. But, as a matter of fact, however efficient a man might be, he could not even in the most favorable environment do much more than keep himself alive if he worked alone. Working in co-operation with others, however, "he so multiplies the results of his toil that he may, if other conditions be favorable, provide himself with comforts and luxuries as well as with necessities." Thus we get division of labor in its broadest sense.

Now, division of labor will be found to include, first, separation (a) of employments and (b) of processes within the employment, and, secondly, (a) combination as an essential condition of the separation, which involves (b) organization and exchange.^a We shall, therefore, discuss the subject of co-operation and business organization under these four heads.

Separation of Employments.

The Greek philosopher Plato, more than twenty-two hundred years ago, observed that "all things will be produced in superior quantity and quality and with greater ease, when each man works at a single occupation in accordance with his natural gifts, and at the right moment, without meddling with anything else."^b Division of labor takes place when, as with us, men do the outdoor and women the indoor work. It takes place on a wider scale when in any community persons begin to devote themselves exclusively to a single trade, as that of blacksmith, shoemaker, or carpenter. David Maydole was a smith, making among other things an occasional hammer. Having made a peculiarly good one, once he was asked to make others, until the Maydole hammers were in great demand. Then he devoted himself exclusively to the hammersmith trade.^c Formerly the same physician treated all or any of the multiform human ailments, as he still does in small country villages; but now you go to four different persons for an affection of the throat, a surgical operation, a toothache, and scarlet fever.

^aNicholson's "Principles," Vol. I., p. 106.

^b"Republic," Bk. I.

^cParton's "Captains of Industry," pp. 9-17

This itself is a sort of co-operation, since the man who makes hammers must rely upon others for everything except hammers. The shoemaker exchanges the product of his labor, or its equivalent in money, for the product of the farmer's or the grocer's toil. And so on through the intricate mazes of modern occupations.^d "Capacity to co-operate depends upon certain well-defined qualities as much as does individual capacity to produce. Of these qualities the principal are. (1) honesty, (2) steadiness, (3) a spirit of conciliation, (4) ready obedience to authority, and (5) organizing ability. The first four are necessary to the mass of men; the last is necessary chiefly to those who assume the task of industrial leadership."^e

Separation of Processes within the Employment.

What we have just considered is the division of labor in its broad sense. What we are discussing under the present heading is division in its technical sense. "By this is meant the division of the process of producing a commodity into a number of different parts, by which each laborer is given but one or two simple operations to perform. In this manner, for instance, the manufacture of a shoe has been subdivided into one hundred twenty-two operations, requiring the services of one hundred thirteen different laborers. So far, indeed, has the division of labor been carried in a modern factory that every reader is able to supply many illustrations of this minute subdivision of the work of production."^e

Advantages and Disadvantages of Division of Labor.

These need only to be named here. The advantages are, (1) men working together, as in the building of the pyramids, can do things which men working singly could not possibly do; (2) by simplifying the work of each man, it shortens the time needed to master a trade; (3) division of labor offers a varied field for industrial activity and thus enables each man with special aptitude or talent to devote his entire time to the work for which he is best fitted; (4) by reducing the labor of each man to a few simple motions the complex division of labor is favorable to the acquisition of great dexterity; (5) the same simplification and concentration of effort is favorable to the progress of invention (when the hand reaches the point where, in production, it makes but two or three simple motions, the time is ripe for the invention of a machine to take the place of labor); and (6) co-operation permits the most economical use of land and natural forces (each section may be devoted to the production of that particular good for which it is best fitted).^f

^dSeager's "Economics," pp. 138, 139.

^eBullock, pp. 55, 56.

^fSeager's "Economics," pp. 139, 140.

The disadvantages are stated by Nicholson^g under the following three headings: (1) Physical. "The physical evils are illustrated by the average length of life and by the susceptibility to special diseases in different industries." Grinders of steel were, until recently, very short-lived. Workers in lace and in glass are liable to diseases of the eyes. (2) Mental. "Of the evils classed as mental, attendant on division of labor, the monotony of the work is generally supposed to be the chief. This has been well put in the mot of Lemontez: 'It must be sad to reflect that one has never raised anything but a valve, nor made anything but the eighteenth part of a pin.' Mr. Ruskin has expressed the same idea in a vehement protest against modern industry: 'It is not, truly speaking, the labor that is divided, but the men—divided into mere segments of men—broken into small fragments and crumbs of life; so that all the little piece of intelligence that is left in a man is not enough to make a pin or a nail, but exhausts itself in making the point of a pin or the head of a nail.'" (3) Social. "The social evils attributed to division of labor are in general consequences of the interdependence of industries and the concentration of labor and capital in great cities." The flocking of our population into the cities has thrust upon us a collection of problems that will take wise statesmanship to solve. Davenant, an English writer, in 1699, wrote that 530,000 people lived in London, 870,000 in the other cities and market towns, and 4,100,000 in villages and hamlets. Today we find London with a population of 4,000,000, five more towns in England with an average of more than 400,000, and fifty-six more ranging from 250,000 to 50,000, with an average of 100,000. This reckoning does not include the large suburbs to each of these towns and cities. In France and Germany it is the same. In our own country there was in 1800 no town with more than 75,000 inhabitants; now there are three with more than a million each, and thirteen with above 200,000 each. More than a third of the population of Victoria in Australia, are collected in Melbourne.^h

Exchange.

"Underlying the division of labor is another co-operative process, —the exchange of products. Without the opportunity to exchange their wares, the shoemaker, carpenter, smith, and farmer could not devote themselves exclusively to their respective occupation. By means of an organized system of markets merchants provide a vent for the products of all industries, and supply producers with whatever goods they may desire to obtain in exchange for their own commodities. In fact, the extent to which labor can be subdivided depends upon the

^g"Principles," pp. 117-121.

^hMarshall—"Economics," p. 280 (foot note).

quantity of the particular product which the market can absorb; obviously if there is a demand for only 100 pairs of shoes each year, it will not pay to adopt methods that enable the producers to turn out 1,000 pairs."ⁱ Division of labor is therefore "limited by the extent of the market.

Combination and Organization of Labor.

"A fourth form of association in industry is found in the co-operation of the three factors of production; for it is necessary that the persons who control the supplies of land, capital, and labor should combine in the establishment of business undertakings." Where the same person owns the land and the capital, we have the simplest possible way of securing the co-operation of the three factors of production; but where different classes of persons control the supplies of land, labor, and capital, a more complex organization is necessary. These organizations may be grouped under the following heads:

First, the single entrepreneur (employer) system, "in which an employer, contributing all of the land and capital, or hiring a part, and collecting the requisite number of laborers, establishes and conducts a business upon his individual responsibility."^j This is the modern employer of labor, and he occupies a very important place in the modern industrial system.^k "In the United States many businesses employing thousands of men and using millions of capital have grown up under the responsible management of single individuals. The advantages of such a one-man organization are obvious. Its disadvantages are that one man, however, able, cannot be equally competent to direct all departments of a large and complex business and that the capital that one man can command is small in comparison with that which may be secured by a number of men associated together."^l These advantages, however, may be overcome by the—

Second form of co-operation known as partnership. "A partnership is an association of two or more individuals who are jointly and severally responsible for the management of the enterprise in which they are embarked. This form of organization is well fitted for businesses calling for a diversity of talents and requiring no more capital than a small number of men may command. Until the last fifty years it was the common form of organization for businesses that had outgrown individual control."^m Recently it has given way quite largely to the—

ⁱBullock.

^jBullock, "Elements," p. 60.

^kNicholson, "Principles," p. 127.

^lSeager's "Economics," p. 144.

^mIbid, p. 145.

Third form of co-operation, the corporation, which on account of its importance will be given a separate lesson.

Fourth, co-operation. This is a plan "for dispensing with the services of the entrepreneur, or the risktaker, and substituting for him a group of partners who both direct and carry out the undertakings in which they are engaged." Co-operation has best succeeded in Great Britain. It began there in the famous Rochdale co-operative store, established in 1844 by twenty-eight persons. The required capital was obtained by the issue of \$5.00 shares to subscribing members, and on this investment 5 per cent interest was regularly paid before profits were divided. The profits, shared only by the subscribers, were distributed proportionate to the amount of purchases. All the sales, moreover, were for cash. By 1874 its membership had increased to eight thousand, the capital to nearly one million dollars, the gross business to nearly a million and a half, and the annual profits to two hundred thousand dollars. Following this movement, in 1864, was the English Co-operative Wholesale Society on the same plan. A third society after the Rochdale plan was organized in Scotland in 1868, which shared the profits with its employees. In 1901 there were 1462 successful retail stores in Great Britain with an aggregate capital of \$110,000,000. Institutions of this sort have not been successful in the United States.

Co-operative stores of this character are able to succeed because "the service they render is of a very simple character. They are sure of their customers. They may insist on cash payments and in this way avoid losses through unwise extensions of credit. They need little initial capital and can usually obtain this without difficulty from the savings of workmen themselves." The chief source of failure lies in the disinclination of the co-partners to pay such salaries as will invite the highest talents in the management. "Labor co-partnership," says Professor Seager,^a "is an admirable substitute for the competitive system whenever and wherever it can succeed. It appeals to higher motives than mere self-interest and its influence upon the character of those who engage in it is broadening and ennobling."

Fifth, management of business by a government.—"The post office is usually conducted in this way, and water works or gas and electric plants may be managed in this manner." State ownership of land and capital is the end which modern socialism strives to attain. The central idea of socialism, according to Professor Nicholson,^o "is to make the state the sole owner of capital—that is to say, of land and all the instruments of production—and in place of competition to substi-

^a"Economics," pp. 515-517, which contains an admirable discussion of the question.

^o"Principles," Vol. I, pp. 226-234. An excellent brief discussion.

tute organization." Socialists, it must be remembered, include anarchists and nihilists at one extreme and the so-called Christian socialists on the other. Hence, it is difficult to offer a criticism of the system, but Professor Nicholson advances the following objections: "In the first place, they exaggerate the benefits derived from control, whilst for a brief period an institution was vigorous and rational, and they overlook the natural decay. This is the first error—an error of fact and historical perspective. The second is to suppose that granting the failure of state interference in the past, circumstances at present are so different, and the ideas of regulation to be applied so much more just and beneficial, that the history of the past has little to teach even in the way of warning." And he goes on to show that the essential conditions claimed by socialists as favorable to government ownership of capital existed in the Middle Ages. Elsewhere he objects that socialism has never advanced anything of real importance, and quotes favorably a passage from Flint, "who has criticized all the principal definitions" of socialism, that its teachings are "essentially indefinite, undeterminate" and that it is "an exaggeration of the rights and claims of society." The difference between socialism and communism is that communism advocates "an equal per capita division of the products of industry, the latter being valued in proportion to the units of labor time involved in their production."^p

In this connection the teachings of "Mormonism" in what is known as the United Order, are worthy of serious attention. First, it endeavors, by means of the gospel, to establish a homogeneity among those who accept its doctrines. Thus men are to be purged of greed and self-interest and taught that literally the earth is the Lord's and the fulness thereof, and that they are only his stewards. Secondly, those who accept these teachings "consecrate" their properties to the bishop "with a covenant and a deed which cannot be broken,"^p after which each is to receive what is called his "stewardship." This "stewardship" may be a farm, a factory, a publishing house, a mercantile establishment, a home with the privilege of following a trade or profession, according to the individual tastes, abilities or capacities."^r

SUMMARY.

1. Men can accomplish more by working together than by working separately.
2. A man can produce more by making one kind of things than by making many kinds.

^pSeager's "Economics," p. 524.

^qDoc. & Cov., Sec. 42: 30.

^rB. H. Roberts, "New Witness for God," Vol. I, p. 402.

3. He can produce more by making one part of a thing than the whole thing.

4. Were it not for the fact that we can exchange things, each man would have to be a jack of all trades, and high productivity would be impossible.

5. There are physical, mental, and social disadvantages in the division of labor.

6. There are several forms of combining the factors of production—by means of the employer system, by partnership, by the form known as the corporation, by co-operation, by government ownership of certain businesses, by community of goods.

QUESTIONS.

1. What is division of labor? 2. Name its four separate processes. 3. Why can men produce more by division of labor? 4. What personal qualities are implied in the division of labor? 5. What are the advantages in division of labor? The disadvantages? 6. Discuss the employer system. 7. Co-operation. 8. Partnership. 9. The corporation. 10. Government ownership of certain business. 11. Communism and the United Order.

LESSON 7.

Business Corporations.

When we were discussing (in lesson six), the various forms of co-operation in industrial processes, we found that that form of co-operative labor, known as the corporation, was of such importance as to demand separate consideration. And so the present lesson is entirely devoted to this aspect of co-operation.

How It Is We Have Corporations.

A corporation is defined by Professor Bullock as "a number of persons who are empowered by law to act as an individual for certain purposes" specified in a charter. The following characteristics of a corporation should be noted:

(1) It has unity of control, no matter how many persons there may be in the corporation.

2. The persons composing it are called stockholders.

(3) It usually has an existence, if not in perpetuity, yet for a very long period.

(4) The control is usually exercised through a board of directors.

A good deal of opposition has manifested itself during recent years to all corporations in general and to some corporations in particular. But, as a matter of fact, whatever abuses the corporation has exhibited, it is none the less a natural product of our industrial system. It is more than this. In its natural workings it is a perfectly legitimate product, a desirable product, a necessary product under our present system of competition. It has made its way wherever civilization exists. In effect it is a survival of the fittest. And so it is not the part of common sense to lose track of the very essential distinction between the normal workings of this institution and the operation of abuses in it. We shall touch this point again when we come to consider what should be done with the big corporations.

The corporation is of nineteenth century growth. It arose in answer to the call for production on a large scale. "The early corporations were generally ecclesiastical or municipal bodies, though some were formed for charitable or educational purposes."^s Only in the last century have corporations for business purposes become common. "At the present day, all large enterprises, as a mere matter of course, assume corporate form. In the United States the census for 1900

^s"Dictionary of Political Economy"—Palgrave.

showed that nearly sixty per cent of the product of our manufacturing industries came from incorporated companies. When it is remembered that all our railways are owned and operated by corporations, and that mining industries are usually conducted in the same manner, it will be evident that a very large share of the business of the country has passed into corporate control."¹

Advantages of Corporation.

If we would learn why the corporation has supplanted so largely other forms of combination, we must look to the advantages which are usually pointed out for it. They are as follows:

(1) It continues as long as it has any promoters. Nowadays business enterprises are so large that much depends upon the length of time for which they are organized. A railroad, for instance, should always be managed with an eye on the distant future. It is, therefore, necessary to have it controlled by a company that can have a perpetual existence.

(2) It draws its capital in large or small quantities from widely different sources and may thus command any amount, however great, for an enterprise in which investors have confidence. As already stated, production on a large scale is necessary under our present industrial system. Under a corporation it is possible to aggregate large sums of money to carry on great business enterprises.

(3) It may profit by the attention of men as directors whose ability and experience make their services of the greatest value, but who could not be induced to assume the risks of partnership. In unlimited partnership each member of the firm is individually liable for all the obligations of the firm. As Hadley remarks, "when a hundred men putting their capital together can do much more for society than if they keep it separate, it becomes necessary to devise some plan which shall make it easy and safe for them to unite. And so we have in corporations what is called the limited liability, by which the stockholder's liability is limited to the amount of his original investment. If the company is well-managed he will get his dividends. If it is badly-managed he will probably lose his money. But his loss will be confined to the amount of his stock subscription. If the liabilities of the company exceed its resources, that is the affair of the creditors."²

(4) It is flexible—it allows a complete change of management, whenever the stockholders deem this necessary, through the simple process of an election at an annual meeting. It is true that sometimes fraudulent methods are employed at these elections, but this is one of its abuses.

¹Bullock's "Elements," p. 61.

²"Economics," p. 146.

Disadvantages of the Corporation.

Unfortunately, however, the extraordinary growth which the corporation has made in recent times has developed some extraordinary abuses, and brought to light its disadvantages. These may be grouped under the following headings:

(1) Diffused responsibility. "In one-man businesses and partnerships the men who organize and manage the enterprises are the ones most vitally interested in their success. In corporations the stockholders, who usually furnish all or the greater part of the capital required and have to bear the loss if things go wrong, entrust their interests to the board of directors. The board of directors in turn deposes the actual management of the business to a salaried president or manager who may not, and often does not, have any further interest in the business than that his reputation depends to some extent upon the honesty and wisdom with which he manages it. The entrepreneur function is thus divided in the corporation between three parties no one of whom has the same vital interest in the business that the single entrepreneur or partner feels in businesses conducted on other plans. Moreover, few directors or managers have not, at times, private interests in conflict with the corporate interest they are supposed to promote. This diffusion of responsibility and of interest causes corporate management to be often wasteful and sometimes corrupt. The salaries paid are frequently higher than they need be to secure the required grade of labor, appointments are often determined by personal rather than by business considerations, and inflated prices are often paid for materials in consequence of the fact that particular directors are interested in their production. More common than these clear violations of trust are misrepresentations in regard to the affairs of the corporation intended to influence the stock market and to enable those interested to carry through some deal for their own profit."

(2) Misuse of borrowing power: "A second abuse is connected with the borrowing power of corporations. When this power is used to secure money by means of a sale of bonds the law gives to bondholders no voice in the management of the corporation so long as the interest is paid and the principal is not defaulted. The larger the proportion of the capital required for any enterprise that is secured through the sale of bonds, the smaller is the interest in the business of the stockholders, who nevertheless continue to control it. It has often happened in connection with railway corporations in the United States that the entire capital has been secured by selling bonds and that the stock has represented simply a bonus paid to the promoters

¹Seager's "Economics," p. 146.

of the company. This is a situation fraught with danger, as American experience has abundantly proved. To give fictitious value to their stock, promoters are only too apt to pay dividends out of earnings that should be expended for renewals and replacements. Before the corporation is reduced to bankruptcy they can usually sell their holdings to unsuspecting investors and retire, leaving to the latter the task of reorganizing the business."^w

Professor Bullock shows^x how it comes about that, by means of bond issues, a few men, acquiring \$250,000 worth of stock, may control a \$2,000,000 concern. "In one well-authenticated case," he says, "a company owning property worth less than \$500,000 was floated with a capitalization of \$8,000,000."

(3) Disregard of public interest: "Individuals in their pursuit of gain are controlled by the moral standards of their business associates. Corporations have no moral standards. Their directors are willing to wink at practices on the part of the officials they appoint to which they would not themselves stoop. Corporate officials, moreover, do not hesitate to do things in the name and under cover of their corporations which they would be ashamed to perform openly for themselves. In the United States corporations have been guilty of buying legislatures, corrupting judges, bribing juries, entering into agreement with political parties insuring them certain privileges in return for campaign contributions, and in fact of every sin in the political calendar. It is owing largely to them that the tone not only of business but of political morality is so much below the standards of private life. This third group of evils is at the basis of the 'corporation problems.'"

What to Do with Corporations.

As was pointed out at the beginning of this lesson, it is necessary to draw a distinction between the real benefits of a corporation and its abuses. During recent years so much emphasis has been given these abuses, and that deservedly, that they have overshadowed in the minds of many persons the far-reaching good effects the corporation has given us; and nowadays there are people everywhere crying out for the abolition of the corporation. This sort of thing is indiscriminate folly so long as our present competitive system of industry continues. To abolish the corporation would mean to step backward in our industrial civilization. The sane thing to do is to regulate corporations. That it can be done is evident by what has already been accomplished. All banks in the United States are corporations.

^wThese points and likewise those showing the advantages of the corporation are taken mainly from Seager's "Introduction to the Study of Economics."

^x"Elements," p. 72.

They hold over twenty-six hundred millions of the people's money and pay about one hundred millions of interest or profit to their depositors. What would result to the business of the country if these corporations were abolished? Most likely they would assume a different and less-serviceable form. There is no harm in these corporations. They possess great power. They hold over three times the amount of our present national debt, more than all the currency, gold, silver, greenbacks, etc., in circulation in the United States. And why is there no danger in these institutions? Because the laws require frequent and full publication of their condition and prescribe certain needful regulations with which they have to comply. At the same time these laws give full scope for the business enterprise of their managers within these limits.

The same thing can be done with other corporations. And so we have the following suggestions for remedying the abuses incident to corporate control, made by Theodore Roosevelt while he was President—a man to whom the nation owes much, not only for throwing light on the corruption of some of the big corporations, but also for bringing them to the snubbing post, and pointing out the means of limiting or doing away with these abuses. These suggestions may be given under two headings:

(1) National regulation of the corporation.^y "At present," he says, "we have no efficient control over a big corporation which does business in more than one state. Frequently the corporation has nothing whatever to do with the state in which it is incorporated, except to get incorporated; and all its business may be done in entirely different communities—communities which may object very much to the methods of incorporation in the state named. I do not believe that you can get action by any state, I do not believe it practicable to get action by all the states that will give us satisfactory control of the trusts, of big corporations; and the result is at present that we have a great powerful, artificial creation which has no creator to which it is responsible. The creator creates it and then it goes and operates somewhere else; and there is no interest on the part of the creator to deal with it. It does not do anything where the creator has power; it operates entirely outside of the creator's jurisdiction. * * * * What I hope to see is power given to the National Legislature which shall make the control real. It would be an excellent thing if you could have all the states act on somewhat similar lines so that you would make it unnecessary for the national government to act; but all of you know perfectly well that the states will

^yThis and the following paragraph are taken from "The Roosevelt Policy," a collection of the ex-President's public utterances on the corporation question. See Vol. I, pp. 40-49.

not act on similar lines. No advance whatever has been made in the direction of intelligent dealing by the states as a collective body with these great corporations. * * * The first thing I want is publicity; and I do not mean publicity as a favor by some corporations—I mean it as a right from all corporations affected by the law. I want publicity as to the essential facts in which the public has an interest. I want the knowledge given the accredited representatives of the people of facts upon which those representatives can, if they see fit, base their actions later. * * No laws amount to anything unless they are administered honestly, and fearlessly.”

(2) Elevating the general standard of citizenship. “Mankind goes ahead but slowly, and it goes ahead mainly through each of us trying to do the best that is in him in the sanest way. We have founded our Republic upon the theory that the average man will, as a rule, do the right thing; that in the long run the majority will decide for what is sane and wholesome. If our fathers were mistaken in that theory, if ever the times become such—not occasionally but persistently—that the mass of the people do what is unwholesome, what is wrong, then the Republic cannot stand, I care not how good its laws, I care not what marvelous mechanism its constitution may embody. Back of the laws, back of the administration, back of the system of government lies the average manhood of our people, and in the long run we are going to go up or go down accordingly, as the average standard of citizenship does or does not wax in growth and grace.”

This last, of course, affects only indirectly the corporation problem. This question will come up again in another form, when we come to consider monopolies and trusts.

SUMMARY.

1. A corporation has unity of control, stockholders, a board of control, and long life.

2. It is practically a nineteenth century growth.

3. Its advantages are that it continues long, that, drawing its capital from different sources, it may command large amounts, that it may profit by the attention of men who would not undertake the risks of the employer system, and that it is flexible.

4. Its disadvantages are diffused responsibility, misuse of borrowing power, and frequent disregard of public interest.

5. The way to deal with the corporation is not to abolish it, but to regulate it, and to educate the individual business conscience in the nation.

QUESTIONS.

1. Define corporation. 2. Give its advantages 3. Discuss its disadvantages. 4. What is the proposed remedy for corporate abuses?

LESSON 8.

Why we Exchange One Thing for Another

The Desire to Exchange Peculiar to Man.

Doubtless everyone has at one time or another in his life observed that when two dogs are in pursuit of the same rabbit they sometimes appear to act in concert.^a Each of them seemingly endeavors to turn the rabbit toward his companion, who apparently tries to intercept the animal when she has been so turned. Is this the result of some sort of agreement between the dogs? Very likely not. The most that we can say positively is that there is an accidental concurrence of their passions for the same object at this particular time. At all events nobody has ever seen one dog make a fair exchange of bones with another dog. The lower animals seem to have no idea of property rights. Nobody ever saw a lower animal, by gesture or cry, virtually say to another, "This is mine, that is yours." Accordingly, a dog, which is universally conceded to be one of the most intelligent of the brute creation, when he desires food, wins it by fawning upon his master, by stealing it when no one is looking, or by exercising physical force.

With man, however, it is different. True, on occasions, especially in childhood or in his primitive state, he employs the same arts of persuasion, servility, or fawning to obtain the object of his desires. But there is not time, even if there be an inclination, to do this always. Other animals, as soon as they grow to maturity, are independent of their fellows. But in the case of man this is not so. Indeed, dependence in a sense increases with the increase of civilization. Everywhere and always man recognizes the fact that he can act to better advantage by co-operating with other men. There are some things which they have that he wants; and there are other things which he has that they want. He knows, too, that though all men are more or less benevolent, he cannot always depend upon that benevolence for aid. He knows that he must enlist their self-interest in his behalf. And so he barter, he trades, he bargains, he swaps, he exchanges. Every time he proposes to do this with any one of them, he says in effect: "Give me that which I want, and you shall have this which you want." It is in this manner, in the main, that we all satisfy our individual needs.

^aThis illustration is taken, with modifications, from Adam Smith

How Exchange Arises.

The need for exchanges grows out of the division of labor. Division of labor has already been considered in detail, in lesson four, but sufficient must be said here concerning it to recall its connection with the present topic.

In the early days in Utah there could often be seen women who kept a few sheep, cut the wool, carded it, wove it into cloth, and made the cloth up into suits of clothes for the boys. Now, however, such a thing is so rare even in the remotest country district as to excite comment wherever it is seen. The reason for the change lies in the fact that the same person cannot do all these things so effectively as several persons who devote themselves to the different processes involved in changing the wool to a suit of clothes. Still, in a comparatively primitive state of society where production on a large scale is not called for, the doing of all these things by the same person is not disadvantageous.

In a complex civilization like ours exchange becomes absolutely necessary. Adam Smith, more than a hundred years ago, called attention to the number of different occupations represented in a woolen coat woven by the day-laborer, and therefore to the need there exists for an exchange of the products of labor. There are, first of all, the shepherd, the one who tends the machine that sorts, combs, spins, dyes, and weaves the wool; the one who folds the cloth; the cutter; the tailor; and many others whose occupations must be joined before the coat is anything more than a possibility. Then, again, there are the carriers and merchants who are employed in transporting and selling the garment from the time it is raw material on the sheep's back till it is a finished product worn by the laborer. And, finally, there are the other vocations involved in the various tools and machinery used by those who have in any way helped to produce the coat. The simple shears of the shepherd, for instance, with which he clips the wool represents a variety of callings, such as that of the miner, the builder of the smelter, the one who fells the timber, the lumber merchant with his employees, the burner of the charcoal to be made use of in smelting, the workmen who attend the furnace, the mill-wright, the forger, the smith, or, as we should say nowadays, those who tend the machines that perform these various processes. It is evident, therefore, that the whole structure of our civilization is based on the supposition that each man can and does exchange the product of his labor for the product of others' labor, or, which is the same thing, for that which is the equivalent of this product—money.

The Advantages of Exchange.

A moment's reflection will reveal the advantages that lie in exchange, both individually and collectively.

The progress of the race is aided. What the state of a community shut off for a long period from all contact with any other community would be, can easily be imagined. Interchange of ideas between different peoples is a great promoter of civilization, and commerce has always been a potent factor in bringing together distant and hostile peoples. Time was when the word *for* stranger (*hostis*) meant enemy. That we do not view strangers nowadays in this light is due to this matter of exchange of products by different communities. Commerce has therefore broadened men's ideas, extended knowledge of all the arts, and tended with increasing power to the maintenance of peace and international comity among the nations of the earth.

Parties to any given exchange may be mutually benefited. Once it was believed that whenever two persons exchanged products, only one of the parties to the transaction was benefited, and the belief lingers in certain quarters even to this day. But this view is now generally considered wholly wrong. Occasionally, of course, one of the two parties gets cheated in the bargain. It is possible even for both parties to suffer loss. But bad bargains result usually only from imperfect knowledge or erroneous estimation of the articles bartered. The rule is that both parties profit by the exchange. The reasons for this advantageousness of exchange are not far to seek.

(1) "Individuals, communities, and even nations differ most widely in tastes and customs. One man or one community may prize most highly a commodity which will possess little value for another person or another community. Under such circumstances, an exchange will place each commodity where it will have the greatest utility. Such an exchange results in an increase of utility.

(2) "Both individuals and communities have different aptitudes for the various kinds of productive labor. These differences may be either original or acquired, but at any given time they are very marked. Now the exchange of products makes it possible for each person to devote himself to that line of production for which his natural ability or his training best fit him. By doing this, both individuals and communities can increase the productivity of their labor.

(3) Again, it happens that persons and communities have different natural environments." Arable lands, pasture lands, forests, mineral wealth, sea fisheries, water powers, or navigable waters are either not available for all communities, or not available in equal degree. By exchanging cotton cloth for wheat, Massachusetts has been enriched by the fertile prairies of the West; while Kansas and Iowa have had the benefit of the water powers of the New England rivers. To quote from Professor de Laveleye, "The poorest workman consumes the product of two hemispheres. The wool for his clothes comes from Australia; the rice for his pudding from the Indies; the

wheat for his bread from Illinois; the petroleum for his lamp from Pennsylvania; his coffee from Java; the cotton for his wife's dress from Egypt or from Alabama; his knife from Sheffield; the silk of his necktie from France.'"^a

The Mechanism of Exchange.

In order to make easy the exchange of products a considerable machinery has grown up. This may be summed up under the following headings:

(1) Means of transporting persons and products. During the last hundred years we have added the steamship and the railroad to the pack horse and the sail boat. Then we should not forget the post-office, the telegraph, and the telephone.

(2) Systems of weights and measures. So important are these in commerce that governments have assumed the work of regulating them so as to insure greater certainty and uniformity. Most probably in time we shall have a single system of weights and measures prevailing in all civilized countries.

(3) Money and credit. This will be given a special lesson.

(4) A great deal of legislation by all the governments of the world. Laws concerning debts, bankruptcy, railroads, and the inspection of certain products are instances of this sort.

(5) A separate class of so-called middlemen, who devote their entire time to the work of exchange.^b

Is the Merchant a Producer?

St. Chrysostom believed it hardly possible for a man to be a merchant*and a Christian at the same time. Cicero declared that a merchant could not do business without lying. To some extent this must have been true anciently, for, as Professor Ely points out, commerce began in robbery—the Phoenicians and the Greeks were pirates before they were merchants. Even Benjamin Franklin thought commerce generally to be cheating. We do not now believe these things to be true of merchants as a class. If they are true of any particular merchant—so much the worse for him; his morals need mending.

But economists go further. The farmer is the type of the producer. And yet he creates nothing. No one can do that. "He simply changes the position of things; puts things in fit places, and thus adds to their utility. He drops the corn in the hill,—changes its place,—

^aBullock's "Introduction to the Study of Economics," pp. 187-188.

^bBullock's "Introduction to the Study of Economics," pp. 188-189.

All these have grown up in the interest of the exchange of production, and, indeed, for the purpose of facilitating exchange.

puts it in its right place. He changes the position of earth putting it over the corn." And the natural forces do the rest.

Now, this is precisely what the merchant does. Goods are brought from where they are not needed to where they are needed. He does what the farmer does—changes their place. The merchant thus brings cotton from South Carolina to Massachusetts. The ice-man puts up ice in the winter when nobody wants it and sells it in the summer when everybody wants it. Hence, the merchant is as truly a producer as the farmer.^c

Market Value.

In commercial transactions articles exchange for one another in definite proportions. A pair of shoes, say, will exchange for a ton of coal. The values of these two articles, the economist would say, are for this reason equal. "Value," therefore, is an important word in political economy. It means the power which a commodity has to command other commodities in exchange. We nowadays exchange commodities, including labor, for money, and with that buy other commodities. Thus, we call up a new term—price. Price differs from value in that value, as stated above, is the power of one commodity measured in terms of any other commodity; whereas price is purchasing power expressed in terms of some one particular article, say, wheat, iron, gold, or silver.

Value must also be distinguished from utility. Value is power in exchange. Nothing has value that cannot be exchanged for something else, though it may have utility. Air has great utility, but it has no value economically, for the reason that it is supplied naturally in such abundance that one may have as much as one wishes without money and without price. It would acquire economic value, however, if it could be bought and sold, as when delivered through pipes to a diver in the sea. And so with water. Nor must the word "useful" be confused with "beneficial." Prussic acid with which the desponding lover shifts off this mortal coil is, economically, as valuable as the medicine which saves a child's life.

Demand and Supply.

Value—that is, power in exchange—depends always and wholly on the relation between demand and supply. These terms both have reference (1) to a certain article, and (2) to a certain price. "In the economic sense, demand means the quantity of a given article which would be taken at a given price. Supply means the quantity of that article which could be had at that price."^d Desire is not demand. A

^cEly's "Problems of To-day," pp. 22-27.

^dWalker's "Political Economy," pp. 78-110. The authority mainly followed in this and the preceding section.

boy may look at the candy in the showcase with never such wistful eyes, but if he has not the necessary nickle in his pocket or his hand, his longing will have no effect on the market.

To illustrate the law of demand and supply, Walker takes the case of an island inhabited by fishers and farmers, on the beach of which is a vast deposit of seaweed, a good manure for the fields. Suppose it to be so valuable that the farmers will give ten bushels of wheat one year for five loads of the seaweed. That is, there is a demand for five thousand loads at two bushels of wheat per load. The supply, however, may be greater or less than this. If, another year, the farmers are agreed that, "what with the labor of applying the manure and what with the necessity of paying for it in advance, seaweed is not worth to any man more than two bushels of wheat," then none of this article will be gathered, and the supply will be nothing. If for any reason more men should prefer farming to fishing, there might be a demand for a thousand loads at two bushels a load. Again, it might happen that the farmers might find that it is worth more to them than two bushels a load, and, finding that it cannot be had for the usual price, they offer more wheat for it till they are able to secure the amount required by the land.

Suppose, now, that something occurs to increase the quantity of seaweed or there is an unusual increase in the number of agriculturists. One of several things may happen.

(1) The increase of supply may coincide with an increase of demand. This increase of demand may take off the entire supply of, say, ten thousand loads—a result, however, which is unlikely.

(2) There may either be no increase of demand, or an increase less than the increase of supply. In this case there may or may not be a fall in price, depending on other conditions. This again is not probable.

(3) "The producers of seaweed being prepared to furnish ten thousand loads, and the purchasers being accustomed to take only five thousand, it is probable that the desire of individual producers to keep themselves fully employed at the business would induce competition among the sellers of this article.

Here again in "competition" we have a very important word in the theory of value. It signifies "the operation of self-interest among the buyers and the sellers of any article in the market. It implies that each man is acting for himself solely, by himself solely, in exchange, to get the most he can from others, and to give the least he must himself."

(1) The idea of competition is opposed to combination. It is defeated by any effort on the part of buyers or of sellers to act in concert. In a state of competition men are absolutely free to sell or buy to the best advantage.

(2) Competition is opposed to custom. If you trade with a certain person because you have been doing so in the past, you are obeying the rule of custom, not of competition.

(3) Competition is opposed to sentiment. You may buy or sell an article under the influence of patriotism, gratitude, charity, or vanity—if you do, you are not obeying the law of competition.

Such is competition in the economic sense.

When the price of an article corresponds closely to the cost of producing that article we have normal price. If, however, (1) there existed no large stock of that commodity, (2) if the demand for it were uniform and strong, (3) if no large "plant" or great amount of capital were required to produce it, (4) if the producers of that article had an easy escape to other occupations or other producers could take up the production of this commodity—if, in a word, there were absolutely free competition, the price of the given article would remain normal; that is, it would correspond closely with the cost of production. But one or all of these four things we have enumerated operate to raise the price of commodities above the normal rate.

SUMMARY.

1. The desire to exchange is peculiar to man.
2. The need for exchange grows out of the fact that one man can do a certain thing better than another.
3. Exchange makes it possible for greater progress in the race and in the race by permitting each to produce what he can do best.
4. It has given rise to such aids as transportation, weights and measures, money, and a separate class of merchants called middlemen.
5. The merchant is a producer as much as the farmer.
6. Value is power in exchange, and differs from price and utility in that price is value measured by some one commodity as money, and utility is merely usefulness.
7. Value implies free competition, the operation of self-interest among buyers and sellers.

QUESTIONS.

1. Do the lower animals have any idea of property rights? of making exchanges?
2. How does exchange arise? Explain.
3. What would be our social condition if we could not exchange products?
4. Give the advantages of exchange to the nation and the individual.
5. Is the merchant a producer? Why?
6. What is meant by value, price, utility? Competition?
7. What does competition imply?

LESSON 9.

Money.

At the very center of the great mechanism of exchange stands money—the medium of exchange. Our present civilization would be an impossibility without it. According to the popular meaning of the term “money is anything that passes freely from hand to hand as a medium of exchange, and is generally received in final discharge of debts.”

Functions.

In modern economy money fulfills four important functions. First, it serves as a medium of exchange. Without such a medium of exchange a man with a horse who wanted a coat would be obliged to hunt up a tailor who wanted a horse, and then might be unable to effect an exchange owing to the inequality of the things to be exchanged. This direct trading is called “barter” and implies a double coincidence of wants and possessions. This phrase is a long one but the thing itself is easily understood. Wherever the division of labor has gone on the producer generally will consume only a small part of what he produces and the remainder he expects others to consume, from whom in turn he hopes to receive the particular things produced by them. If every producer had to go about to make these exchanges he might be obliged to spend a great deal of time and walk a great distance to find a person who both has what he wants and wants what he has. He might find many who have what he wants, but they may not want what he has, and many more persons who want what he has but they have not the things which he wants. Another obstacle which is encountered in barter is the difficulty in making exchanges. If three hats are worth five bushels of wheat the exchange will be easy providing the man who has the hats wants wheat, and the man who has wheat wants hats. A hat will be given for one bushel, two pecks, and five quarts of wheat and both parties will be satisfied. But if three hats are worth four pairs of shoes an exchange will be impossible unless one party takes more hats than he wants or the other more shoes.

Second, money serves as a measure of value; in other words, as a common denominator. When a man comes to make exchanges for some one commodity (money) that commodity serves as a standard by which the exchange value of all exchangeable things is measured. In order that this function may be best fulfilled there is needed

a definite and concrete unit like our gold dollar, which consists of 25.8 grains of gold and silver in the proportion of nine to one. When having such a unit we say the commodity is worth \$10.00. We mean that the exchange value of the commodity is ten times the value of the monetary unit. In the third place money serves as a standard for deferred payments. In this day of credit it is of the utmost importance that we should have some agreed standard according to which future payments should be made—a standard which varies as little as possible. This function is usually facilitated by having attached a legal tender quality. Money has a fourth function—that of serving as a storer of value, so that value may be transferred from place to place and from time to time. Gold taken to any part of the world carries with it its stored up value. Gold brought down from the time of Solomon brings with it a value equivalent to the last gold mined. We may conclude from this "that money is any commodity that serves as a medium of exchange; a measure of values; a standard for deferred payments; and a storer of values.

Qualities of a Good Money.

The present day monetary systems are the results of evolution. Many kinds of commodities have served as money. In the early literature of Greece and Rome the ox is referred to as a standard of value. In Africa cubes of salt served. Tea was used at one time in parts of Asia. American Indians used strings of beads which they called wampum, and for a time this was used by the New England colonists for small payments. In Virginia tobacco long served as money. Finally all civilized countries have come to use metals as money, and in the more important commercial countries gold has been accepted as the standard and all other metals have been relegated to subordinate positions in the monetary system.

Economists are generally agreed that the following qualities should be possessed by the commodity selected to serve as money: 1—value, 2—durability, 3—portability, 4—homogeneity, 5—divisibility, 6—cognizability, 7—stability of value.

Value, the commodity that serves as the intermediary between valuable things must possess value itself.

Durability is important because the medium of exchange must remain in each seller's possession for sometime and unless it is durable it will depreciate to the seller's loss. This quality precludes the use of any perishable article as money, and accounts for the world's preference for metals.

Portability is an indispensable quality of a good money. All else being equal the commodity that compresses the greatest value in the smallest bulk is most desirable. No other objects except stones have

so great a value in so small a weight. Say that a man can conveniently carry on his back 60 pounds. 60 pounds of coal is worth less than 20 cents; the same weight of wheat is worth about 60 cents; of refined sugar about \$3.00; of cotton, \$4.00; of copper, \$8.00; of ivory, \$140.00; of raw silk, \$250.00; for silver, \$500.00; of fine gold, \$18,000.00.

Divisibility insures that the commodity used as money may be divided and sub-divided without loss in value. The smallest piece of gold bears proportionately the same value to its size as the largest piece does to its size.

Homogeneity implies that all gold is the same. The greatest expert cannot discover a difference in the gold taken from Australia and from Klondike.

Cognizability renders counterfeiting difficult.

Stability of value, the last quality, is a most important quality in anything used as a standard for deferred payments. Any great fluctuation in this standard would disturb the relation existing between debtor and creditor and would result in injury. Gold has a marked superiority over other things in this particular. Furthermore, the demand is elastic and the supply is constant. Any increase in the output of gold that is not very marked and covering a long period would not perceptibly affect the market is governed by its price.

The world's stock of gold may be estimated at about \$10,000,000.-000 while the annual output of the gold mines is about \$3,000,000. The result is that, unlike wheat or cotton, the value of gold is but slightly affected by changes in the amount produced from year to year; so it serves very well as a standard for deferred payments.

Coinage.

At first the precious metals circulated by weight and thus all merchants naturally were obliged to provide means of testing their purity and determining their weight. This great inconvenience was overcome by having them coined. The manufacture of metallic money is called coinage. In all the commercial countries it has become a government monopoly because experience has shown this to be the surest way of maintaining a reliable system. The first step in this direction was to impress upon a bar or ring or wire of the metal a stamp certifying to its weight and fineness. Afterwards the head of the sovereign was stamped on one side of a flat disc and an indication of the weight on the other side. So long as this loose practice obtained it was necessary at each transaction to weigh the money to make sure that it had not been "clipped" since leaving the mint. Finally, both sides were stamped with beautiful and elaborate relief work, and the edge carefully milled. By these precautions tampering with the coin could be easily detected. Thus counterfeiting was made both difficult and dan-

gerous. With a good coinage system money passes by tale, i. e., by count.

Kinds of Coinage.

Free Coinage exists when any owner of bullion has the right to take it to the mint and have it coined. It simply means there shall be no limitations as to the amount. At present the United States allows free coinage of gold but not of silver. A considerable expenditure of capital and labor are required for the operation of a mint, and governments in the past have often imposed upon the owner of the bullion the expense of coinage. A charge which only covers this is called brassage. At the present time in the United States no charge is made for coining standard gold bullion—that is bullion nine tenths fine. This is called gratuitous coinage. So in the United States we have both free and gratuitous coinage of gold. Governments often retain more metal than is required to cover the cost of coinage. Such a charge is called seigniorage. Until recent times many sovereigns abstracted 10, 20, sometimes 80, or 90 per cent. When this was done the weight of the coin was kept up by increasing the amount of alloy. Modern commercial countries usually debase the smaller coins and make them worth less than their bullion value to prevent people from uselessly melting up these coins. This compels people to select the larger pieces for melting which, dollar for dollar, costs less to coin. Not only do governments control the coinage of money, but they also determine by law what shall be received by persons in payment of debts. Such monies are called legal tender. Thus in the United States all our gold coins, the silver dollar, and United States notes are declared to be legal tender. But the courts will enforce contracts that call for payment in gold.

Laws of Money.

Clearly the value of money will be measured by the number of commodities that it will command—rising as this number increases and decreasing as it falls. In other words, when prices are low the purchase power of money is great, and money is high; and when prices are high the purchase power of money is small and its value is low. In other words the value of money varies inversely with the general level of prices. The depreciation of money during the past thousand years is a fact proved by all historical information. At the time of Charlemagne (800) silver was approximately nine times as valuable as it is today. At the discovery of America it was six times as great. At the time of the French Revolution it was more than twice what it is today. Some of the ablest economists regard the depreciation in money as beneficent. Gide says: "A rise of price is a stimulus to production: it sustains the spirit of enterprise: it is favorable

to an increase in wages: it acts like a tonic and may be regarded as a symptom of economic vigor."

Gresham's Law.

Gresham's Law briefly stated is this: "In every country where all kinds of legal money are in circulation the bad money always drives out the good." A little reflection will verify this law when we consider that money is not destined like other wealth neither for consumption or for production, but solely for exchange. When either bad money is put in circulation with good money or local money with universal money the bad money and the local money will have a tendency to drive out the good money and the universal money. Its disappearance is brought about in three ways: hoarding; payments abroad; and sales by weight. Take the first—hoarding. When people want to put aside money for emergencies they pick out the best pieces and the best kind. Panic stricken people during the Civil War did not waste their time by saving paper money, but they laid aside gold coin. Banks do the same thing preferring always to increase their supply of gold rather than of poor money.

Second—payments abroad. The foreign creditor is not compelled to accept our national money. He takes money for its intrinsic or commercial value. Therefore, we cannot send him light money. Consequently we keep the light money at home and reserve our good money for foreign commerce.

Third—sale by weight. If for any cause gold is worth more as metal than as coin it is clearly profitable to stop using it as money. If sold by weight the heaviest coins will go first. If the United States today were on a bimetallic basis—if silver were accepted as a legal tender at a ratio of sixteen to one—it is very evident that there would be a rapid disappearance of gold and an increased supply silver. This law operates in the following cases: a—When worn money is in circulation with newly coined money. b—When depreciated paper money is in circulation with metallic money. c—When light money is in circulation together with heavy money.

The limits of the present manual will not permit of a consideration of the problems of money nor a discussion of representative or paper money.

SUMMARY.

1. Money serves as a medium of exchange, a measure of value, a standard for deferred payments, and a storer of value.

2. The qualities of a good money are, value, durability, portability, homogeneity, divisibility, cognizability, and stability of value.

3. Free coinage, means that there shall be no limitation as to the amount. Brassage is a charge which covers only the cost of coinage. Gratuitous coinage means without expense to the owner of bullion. When a government exacts more than the cost of coinage it is called seignorage.

4. Gresham's law is that a bad money will drive out a good money.

QUESTIONS.

1. Point out the disadvantages of barter. What is meant by money serving as a common denominator? 2. What are the qualities of a good money? Why is stability of value such an important quality? Have you read anything on the tabular standard? If so explain it. 3. What is meant by the free and unlimited coinage of gold and silver at the rate of sixteen to one? Explain seignorage, brassage, free coinage, gratuitous coinage. 4. Explain the operation of Gresham's law.

LESSON 10.

Credit and its Instruments.

The word credit has various shades of meaning, the commonest of which is indicated when we say a man has good credit, by which we mean that he has the reputation of paying his debts, and has the ability to do so. Consequently other men are willing to sell him goods and wait until some future time for their pay. Sometimes credit refers to the character of the transaction and not the man. The transfer of goods with the expectation of future payment is called a credit transaction. It contains the element of time. This is the meaning of the term in a science of economics. The machinery by which credit is carried on consists of two parts: (1) instruments of credit—the evidences of indebtedness, such as book accounts, checks, drafts, notes, bonds, etc. (2) The institutions of credit, consisting principally of banks and clearing houses.

Instruments of Credit.

In most credit transactions the seller is careful to secure some written instrument which will serve as evidence of the obligation of the debtor to pay at some future time. Book credit is one of the simplest and commonest forms of credit. When goods are sold a record is made. They are "charged." For example, a coal dealer may sell to a hardware merchant coal to the amount of \$25.00. The merchant may in turn sell a stove to the coal dealer for \$20.00. At the end of the period the merchant simply pays \$5.00 in money and the account is settled.

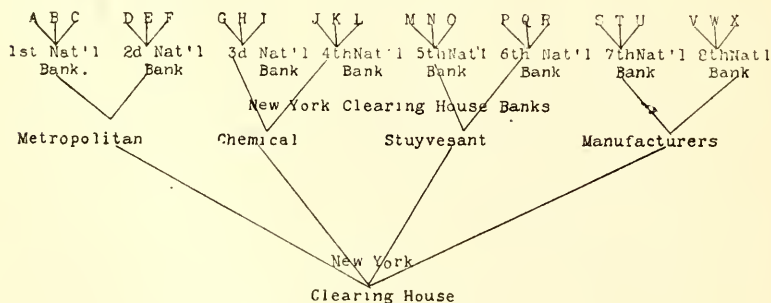
Checks.

A check is a written order drawn by an individual or company upon a bank directing the payment of a certain sum of money to the order of the person named or to the bearer of the check. It can only be drawn against a credit in the bank. Let us assume that A owes B \$50.00; B owes C \$50.00; C owes D \$50.00. Assume also that the four men have deposits at the same bank. Then A, B, and C may draw checks for \$50.00 payable to B, C, and D respectively. In due time B, C, and D will deposit at the bank the checks received from A, B, and C. Then the bank will deduct from the deposits of A, B, and C the amount of checks drawn by them, while he will credit B, C, and D with the amount of the checks which they present. The net result will be that A's account will

be decreased by \$50.00 and D's will be increased by \$50.00. By this means the debts are cancelled without the actual use of money. Now, if the four men deposit in different banks in the city, the banks will settle their accounts through a clearing house.

Clearing House.

A clearing house is an institution where messengers from different banks come together daily and exchange checks paid by them on other banks for checks drawn on them and paid by other banks. By this means checks amounting to millions may be exchanged through the transfer of 5 or 6 per cent of the amount in money. This is the way it is done: The customers of each bank deposit with it all checks received by them and they are credited with the amount represented by these checks. Then each bank takes to the clearing house all of the checks, drafts, etc., drawn on other banks. At the clearing house it will find that other banks have paid checks drawn upon itself. If the bank sends to the clearing house \$15,000, while it finds other checks drawn against itself to the amount of \$12,000 the bank will be entitled to receive the difference of \$3,000 for which the clearing house is indebted to it. On the other hand, if the checks drawn upon the bank had amounted to \$20,000 the bank would be indebted to the clearing house for \$5,000, which balance would have to be paid in money. In this manner different banks very conveniently settle their mutual obligations, paying the balances against them and receiving the balances due them at the clearing house. Banks located in different places settle their accounts with almost equal ease. Banks in country districts have correspondents in the nearest clearing house city. Then finally clearings for the entire country are made by the New York clearing house. The following diagram taken from the Institutes of Economics by President Andrews, illustrates the operation:



Promissory Notes.

A promissory note is a written promise to pay at a specified time a certain sum of money. The holder of the note may, by writing an

order on the back and signing his name, transfer it to a third party. By endorsing the note any holder may transfer it and it may be used for the means of paying his debts. When it is finally paid it may have effected a number of exchanges.

Drafts.

A bill of exchange or draft is a written order by which the person who draws the bill orders a second person to pay a specified sum of money to a third person. It may be payable at sight or at a specified time. The most convenient and acceptable way of settling accounts due in distant cities is by means of bank drafts. The customer buys at the bank a draft drawn upon the banker's correspondent in a distant city, and sends this to his creditor. By this means large obligations between distant cities are settled without the transfer of any money. Only when the obligations incurred in one city exceed those incurred in the other need the balances be paid by forwarding money.

Banks.

A bank has been defined as "a manufacturer of credit and a machine of exchange." It performs several important functions, chief of which may be mentioned the deposit function, discount function, and note issue function. All modern banks exercise the deposit function; that is, they receive deposits and hold them subject to the demands of the depositors. Originally they were paid, for the safe keeping of money. Now they make a profit by investing the money deposited with them. The deposits of the commercial bank must be paid on demand. Consequently the practice of lending the deposits as well as the principal of the bank was regarded as a very dangerous innovation at first. By lending money for short periods and arranging the loans so that a certain proportion of them becomes due each day the modern bank is able to lend from two-thirds to three-fourths of its deposits without running any serious risk. It is necessary, however, for the bank to command the confidence of its depositors. If they are suspicious a slight circumstance may precipitate a "run on the bank" which might prove fatal, for no bank can do a profitable business and at the same time be in a position to pay all of its deposits at once. Banking, then, depends for its success in a large degree upon the confidence in which the people hold its officers. This is the way a bank makes its money: If all the inhabitants of a town have their deposits in the same bank, it will readily be seen that payments among them might be made by means of checks which would not involve the withdrawal of money from the bank. For example, if a butcher, a grocer, a dry goods merchant, a lawyer, and a doctor each had on deposit \$1,000, they might at the end of the month settle all their accounts by checks and the \$5,000 would remain in the bank undisturbed. Thus the banks might with safety lend four thou-

sand dollars of this money. Lending is the most important function from the point of view of the banker. He is willing to accept deposits, to be responsible for their safe keeping, to maintain help necessary to properly operate the check system, and in every way to accommodate his patrons because it is through lending their deposits that he derives the greatest part of his profit.

Bank Loans.

Bank loans may assume a variety of forms, depending upon the kind of security. The simplest kind of loan is upon the personal note of the borrower. A more common kind is on the personal note of the borrower, endorsed by a friend or business associate. Endorsements on notes may be multiplied and each new name may add something to the security. But more acceptable to bankers than personal notes are notes secured by pledges of stocks or bonds, usually called "collateral." If such notes are not paid when due the banker is at liberty to sell the securities and reimburse himself. Banks also lend by discounting notes and bills of exchange created in the ordinary mercantile transaction. If A holds B's note due at some future time, and if both of these men enjoy the confidence of the banker he will probably pay to A the face value of B's note providing it bears interest. Loans differ as to conditions of payment. They may be "call" or demand loans, short time loans or long time loans. Call loans are payable at any time and at the will of either lender or borrower. They are based usually upon collateral security, and the borrower who fails to respond promptly to a bank's request for payment runs a risk of being sold out. Short time loans are loans which mature within 30, 60 or 90 days. Long time loans are those that run for six months or more and are frequently made by savings banks and trust companies.

While the deposit and discount functions are the essential ones in commercial banks, in the United States National banks are permitted under proper supervision to issue circulating notes. These notes are payable on demand and are amply secured by United States bonds. If the bank issuing the note should fail the note would still be paid.

Operation of Banks.

"Suppose that a banking corporation begins business with a capital of \$50,000, and that it immediately receives deposits to the amount of \$100,000. The capital, it should be observed, serves as a guarantee for the safety of the depositors' money; for if bad investments are made, resulting in a loss, the creditors of a company can lose nothing until the entire capital is wiped out. At this stage of its operations, the balance sheet of the bank would stand as follows:

Liabilities		Resources.	
Capital Stock.....	\$ 50,000	Office fixtures	\$ 5,000
Deposits	100,000	Cash	145,000
<hr/>		<hr/>	
\$150,000		\$150,000	

We will now suppose that the company lends to various persons \$100,000 for ninety days at six per cent interest. These borrowers have accounts at the bank, and wish to have the funds which they borrow available for withdrawal by the usual method—by check. Accordingly, the company will deduct \$1,500 for interest, and credit the borrowers with deposits to the amount of \$98,500. When this is done, the balance sheet of the bank will stand as follows:

Liabilities.		Resources.	
Capital.....	\$ 50,000	Fixtures	\$ 5,000
Depositors	198,500	Cash	145,000
Profits.....	1,500	Loans and discounts.....	100,000
<hr/>		<hr/>	
\$250,000		\$250,000	

By this transaction, it will be observed, the bank has increased its liabilities to depositors by \$98,500; as an offset, it now owns \$100,000 of promissory notes or bills of exchange, classed as loans and discounts, which at the end of three months will not only cancel such obligations, but also leave a profit of \$1,500. Whenever loans are made, the effect is to increase a bank's deposits, since most of the borrowers will be depositors and will desire to draw out their money more or less gradually by check. Deposits originating in this way are precisely like the \$100,000 of liabilities due to persons who deposited cash in the bank, except for the fact that they are obtained by giving promissory notes instead of turning over cash. Let us now suppose that depositors draw checks to the amount of \$50,000 in order to effect various payments. After the checks have been paid, the accounts of the bank will show the following changes:

Liabilities.		Resources.	
Capital.....	\$ 50,000	Fixtures	\$ 5,000
Deposits.....	148,500	Cash	95,000
Profits.....	1,500	Loans and discounts.....	100,000
<hr/>		<hr/>	
\$200,000		\$200,000	

The bank now holds \$95,000 of cash against \$148,500 of deposits, a reserve equal to nearly sixty-four per cent of these demand liabilities. Experience has shown that, under ordinary conditions, a reserve of from fifteen to twenty-five per cent is ample to provide for all demands that depositors will make at any one time. Accordingly the bank will endeavor to enlarge its loans, since the liabilities can be safely in-

creased; while the profits, of course, depend upon the amount of such business that can be done. It therefore lends \$100,000 upon the same terms as before, its balance sheet then standing as follows:

Liabilities.		Resources.	
Capital.....	\$ 50,000	Fixtures	\$ 5,000
Depositors	247,000	Cash	95,000
Profits.....	3,000	Loans and discounts.....	200,000
<hr/>		<hr/>	
\$300,000		\$300,000	

The cash reserve being still nearly forty per cent of its liabilities, the bank invests \$10,000 in the purchase of various securities, the stocks or bonds of some prosperous corporation. If, now, shortly after this, depositors withdraw \$40,000, the condition of the institution will be as follows:

Liabilities.		Resources.	
Capital.....	\$ 50,000	Fixtures	\$ 5,000
Deposits.....	207,000	Cash	45,000
Profits.....	3,000	Securities	10,000
<hr/>		Loans and discounts.....	200,000
<hr/>		<hr/>	
\$260,000		\$260,000	

The cash reserve is now less than twenty-five per cent of the deposits; but \$10,000 can be added to it upon short notice by merely selling the securities which the bank holds.

It now remains to study one other operation, the issue of notes. Let us assume that the bank is allowed to issue circulating notes with perfect freedom, as no bank in the United States has been permitted to do for more than forty years; and assume, also, that the occasion for the issue is the demand of the depositors for \$40,000 of ready money. If the persons who present the checks drawn by the depositors are willing to accept \$40,000 of bank notes in payment of their claims against the bank, then the balance sheet will stand:

Liabilities.		Resources.	
Capital.....	\$ 50,000	Fixtures	\$ 5,000
Deposits.....	167,000	Cash	45,000
Notes.....	40,000	Securities	10,000
Profits.....	3,000	Loans and discounts.....	200,000
<hr/>		<hr/>	
\$260,000		\$260,000	

Obviously this transaction has not increased the aggregate demand liabilities of the bank, but has merely substituted a liability of \$40,000 to noteholders for one of \$40,000 to depositors. It has, however, had one very important result. If the checks drawn by depositors had been paid in cash, the specie held by the bank would have

been drawn down to \$5,000, a dangerously low point. The bank could have increased its cash by selling its \$10,000 of securities, but even this would have given a reserve of less than ten per cent of the \$167,000 due to depositors. Under such conditions the institution could not have loaned any more money to its customary borrowers and would have had to curtail its operations until the gradual maturing of some of the \$200,000 of discounted paper had increased its cash to safe proportions. As it is, however, by issuing notes the cash reserve is kept unchanged; and the bank will not need to curtail its loans.

Services Which Banks Render.

It would be hard to estimate the services which banks render the business community. Through the agency of banks a cheap and elastic check currency has been substituted for money. They gather together the small savings of thousands of persons to whom they are of no immediate use and place them at the disposal of capable and enterprising business men who are thus able to project and carry to a successful conclusion great business enterprises. And finally banks serve as a great moral factor in a community. They encourage the industrious, the prudent, the punctual, the upright—while they discountenance the spendthrift, the gambler, the liar, and the knave. They stand as conservators of commercial virtue.

SUMMARY.

1. Credit is carried on by the instruments of credit—accounts, checks, drafts, notes, etc., and the institutions of credit—banks and clearing houses.

2. A clearing house is an institution through which banks daily settle debit and credit differences. The final clearings for the banks of the United States are made through the New York clearing house.

3. A bank is defined as a machine of exchange. The most important functions are to receive deposits, discount notes, or to lend money on notes, and issue notes. They make their profit largely through lending deposits.

4. Banks provide an elastic check currency, they accumulate small savings and make them available, they encourage thrift and honesty.

QUESTIONS.

1. Upon what is credit based? Name some advantages of individual credit. Name the instruments of credit. 2. Explain the clearing house system. Point out its advantages. Explain how final clearings are made in New York. 3. Show that the success of a bank depends largely upon the confidence which the people have in its officers. Are "call" loans advantageous to banks? Explain. 4. Enumerate the principal services which banks render a community. Show that banks are conservators of commercial virtues.

LESSON XI.

Monopolies and Trusts.

What Monopolies and Trusts Are.

We often hear the expression, so-and-so has a perfect monopoly of this, that, or the other article. The meaning generally is that the person referred to has some sort of exclusive privilege so far as the specified thing is concerned. And nowadays we read a good deal about trusts and monopolies, their effects on society, and the difficulty of dealing successfully with them. Everybody, therefore, has some kind of notion as to what is meant by the words "trusts" and "monopolies." But vague, general notions are very unsatisfactory things when we wish to think straight and have others understand us. Hence, we must get a clear, definite idea of the meaning of these terms before we proceed to the consideration of the business concerns designated by them.

And first of all, as to what a monopoly is not. One would think from some of the uses of the word monopoly by persons on the street that any big concern in a large city is a monopoly. It may be, but not because it is big. It would have to possess other characteristics besides bigness before it could be a monopoly. Not even a corporation, big or little, is necessarily a monopoly. A corporation, as we found in lesson seven, is "a number of persons who are empowered by law to act as an individual for certain purposes defined by a charter." A corporation, therefore, as such, may be wholly within the law—it is created by the law. A monopoly may or may not be lawful, and almost the whole trouble, so far as trusts are concerned, is that they operate without the pale of the law. A corporation may be a monopoly, but it would have to possess certain distinctive marks before it can be such. Then, again, some persons appear to think that the business called a monopoly can have no substitutes. A private electric light system, on this supposition, or a private street railway company, could not be a monopoly. But this is a mistake. As a matter of fact, you may use a lamp or a candle to dispel the darkness in your house, or you may take a cab to your place of business in the city, or you may walk. Though these concerns are very clearly monopolies, still, if enough people used lamps or candles for light, and cabs and legs as a means of transportation, there would be neither electric light companies nor street railways.

But it is time we learned what a monopoly is. The word "monopoly" comes from two Greek words—monos, meaning "one" or

"alone," and polein, meaning "to sell." Anything, therefore, was a monopoly to the Greeks, which was sold by one person solely, if he had the only right to sell it. The Bible tell us—for monopoly is really very old—how Pharaoh secured a monopoly of food in Egypt while Joseph, son of Jacob, was there.^a When Queen Elizabeth of England was hard beset for the means of rewarding a favorite or anyone who had done her a service, she called into requisition "one of the fairest flowers of her prerogatives" and gave him the exclusive right to sell, say, currants, salt, or powder. The one who got this right was a monopolist, and his business was a monopoly. Hume informs us that a salt monopoly was thus created, and that the monopolist of this article advanced its price from sixteen pence a bushel to fourteen or fifteen shillings. The government in France has a monopoly on tobacco, in Switzerland on distilled liquors, and in the United States on the postal service. Writers and inventors are given monopolies on the product of their brain for a term of years. The exclusive privilege in a monopoly, however, need not come from a government. Nature may give it in land, special talent, or some other natural agent. Hence, Professor Ely thus defines the term: "Monopoly means that substantial unity of action on the part of one or more persons engaged in some kind of business which gives exclusive control, more particularly although not solely, with respect to price."

Now, it frequently happens that no one person or group of persons in a single business controls enough of given product to constitute a monopoly. According to Mr. Henry O. Havemeyer, President of the American Sugar Refining Company, a man producing eighty per cent of an article has a monopoly.^b But it is not often that one man produces eighty per cent of any article. One man, however, or a group of men acting as one, may secure control of eighty per cent of a product. And it may be done in any of the three following ways:

(1) An agreement between a number of producers to limit the product, to maintain fixed prices, or to appoint common selling agents. "These agreements are seldom lived up to, and mutual suspicion among the members generally breaks them up. Yet a 'friendly agreement' between four large beef packers in Chicago has sufficed to build up a practical monopoly of the cattle and meat business in the United States."^c

(2) The "pool." By this is meant "a formal agreement to main-

^aGenesis, ch. 47.

^bTestimony before the Joint Committee of the Senate and Assembly of New York State, quoted in Ely's "Monopolies and Trusts," pp. 15, 16.

^cBullock, in his "Introduction to the Study of Economics," from which this and the following two points are taken, pp. 322, 323.

tain prices, in which the parties agree to divide the territory, to divide the business, or to divide the earnings." These are sometimes broken up by the same cause as the "friendly agreement." Besides, courts have refused to enforce pooling contracts as being in restraint of trade and opposed to the public interest.

(3) The trust. "Trusts were formed by having competing corporations place a majority of all their stock in the hands of a board of trustees. These trustees managed the business of the several corporations, and secured harmony of action. The original stockholders received trust certificates proportionate to the certificates. The Standard Oil Trust, formed in 1882, was the earliest and most successful trust." Since then the evil example has been followed on every hand, till we have the sugar trust, the beet trust, the coal trust, the book trust, and scores of other trusts, big and little.

Kinds and Extent of Monopolies.

The story is told of Chancey M. Depew that, thirty-odd years ago, a young man named Bell came into his office one day and offered to sell him for ten thousand dollars a large interest in a new invention by which the human voice could be heard over the telegraph wire. The thing seemed so incredible that Mr. Depew, after consultation with a practical telegraph operator, laughingly said that he had no money to throw away. That invention was the telephone. And we are not surprised to learn that the Senator from New York might have been worth just one hundred million dollars more than he is now, and that without so much as turning a hand!

This incident, besides showing that generally foresight is not so long as hindsight, illustrates two kinds of monopolies. First, there was the exceptional talent in young Bell, which enabled him to improve on the work of others. Then, secondly, he got his invention patented at Washington, by which he secured the exclusive right to make and sell the product of his thought. As we have already stated, the postal service is monopolized by our national government. This gives us a third form of monopolies. Again, we have a national monopoly, by reason of location, in the fact that practically all the anthracite coal in the United States is in a small area of Pennsylvania; and, because of consumption of products in connection with plants, in the fact that gas, water, and electric light can be supplied to consumers only by extending pipes and wires to places where commodities are used. A fourth form of the monopoly is of recent growth—those vast aggregations of wealth and illegal combinations of capitalists known as trusts. And we have just seen the three ways in which this combination may be formed.

To recapitulate, we have therefore four kinds of monopolies: (1) That given by personal abilities; (2) legal monopolies in the two forms

of (a) private and (b) public monopolies; (3) natural monopolies taking the form of (a) monopolies of location or (b) monopolies due to the consumption of products in connection with the use of plants; and (4) capitalistic monopolies.

The extent of monopolies may be seen from the following facts presented by Professor Bullock:^d "Combinations of various sorts, enjoying partial or nearly complete monopolies, are attempting to control the national markets for sugar, matches, starch, beef, flour, alcohol, tobacco, crackers, coal, petroleum, cotton-seed oil, linseed oil, glass, paper, rubber, leather, steel rails, wire nails, tacks, shovels, chains, anthracite coal, and other products; while local monopolies exist in many other industries. In the field of the natural monopolies there are telegraph, telephone, and express monopolies, organized on a national scale; while the gas, street railway, water supply, and electric-lighting industries are given up to local monopolies or operated as municipal enterprises. The consolidation of railways is rapidly throwing the control of the national highways into the hands of a few great railroad systems. We must realize, therefore, that monopoly is one of the common facts of modern business, and that its influence for good or for bad reaches into nearly all branches of economic activity."

How Capitalistic Monopolies Have Grown.

The great combinations of capital known as trusts have grown to their present magnitude by what we may term legitimate and illegitimate means.

(1) So far as these capitalistic monopolies are legitimate at all in the broad sense of the term, they are the natural outgrowth, we are told, of present methods of competition. Competition has become increasingly fierce. Enormous sums of money are spent in advertising. Rival tobacco firms in the South are said to have spent three million dollars in this way in a single year. Only the larger concerns can afford to advertise on such a scale. Hence, the small firms go to the wall. Then, again, rival business houses undersell each other, till the weaker is forced to yield. A combination of rival industries, therefore, it is sometimes contended, enables the new firms to save expenses. Under a single management one and a half million dollars would probably have sufficed for the advertising needs of the tobacco trust just mentioned. And then, too, it must be admitted that production on a large scale is less expensive per unit, up to a certain point, than production on a small scale. These giant corporations can afford, for instance, to keep expert chemists whose sole business is to recommend improvements in the means of production. Hence, some of

^d"Introduction," pp. 324-5.

the trusts assert, the price of products is less under combination than under competition.

Much of this reasoning we may grant. But some of it we cannot—the matter of a reduction in price, for instance. While it is true that the Standard Oil Trust and the Sugar Refining Combination did reduce the prices to consumers during a period of twenty years, still it must be remembered that the prices of all commodities during the twenty years in question fell, but those of oil and sugar not proportionately. It was shown, moreover, in the investigation of the Standard Oil Company before the United States Circuit Court at St. Louis in 1908, that during such times as other commodities had risen in price twenty-three per cent the price of oil had risen forty-five per cent.^e We must conclude, therefore, that while to some extent the growth of combinations of wealth is due to the cut-throat methods of competition, yet in combining there has opened up new avenues for cupidity and greed.

(2) But there is abundant evidence for believing that these vast combinations of capital have been aided by various improper influences. At the St. Louis investigation of the Standard Oil Trust, already referred to, it was shown that, in a successful attempt to crush rival institutions, "Standard agents used fraudulent lamp tests to prove competitors' oil of inferior quality; that oil was colored artificially, and misrepresented; and that rebates of from fifty per cent to seventy-five per cent were given to dealers in Standard Oil."^f At a hearing before Commissioner Shields in New York City, in 1908, of the Sugar Refining Company, popularly known as the Sugar Trust, in which the general government brought seven suits for the recovery of customs duties aggregating more than three and a half million dollars, it developed that the company had used fraudulent scales at its Brooklyn piers for weighing raw sugar, thus reducing import duty.^g Moreover, trusts have been illegally aided by the railroads. "The Standard Oil Combination has always had the aid of railroads in crushing competitors. Independent refiners were charged higher rates at first, and the excess over the normal rates was paid to the Standard Oil Combination. This was exposed, and the contracts with the railroads were ostensibly canceled. But a continuous line of evidence, extending to the very month in which this is written [May, 1908], shows that the oil monopoly has always received assistance from the railroads. So with the dressed-meat combination. A congressional investigation showed in 1888, that freight rates west of Chicago en-

^e"New International Year Book," for 1908, under "Standard Oil Co."

^fIbid.

^gIbid, under the caption "Trusts."

couraged shipments of cattle to that city. After reaching Chicago, the trunk-line association refused to haul cars of private shippers to New York, so that cattle had to be unloaded at the stock yards controlled by the four great packing houses. Then the meat combination received a mileage allowance of nearly \$200 per annum on each car used in shipping their products to the East. Finally, some of the railroads refused to carry cattle for local butchers who would not sell the dressed beef of the great combination."^h

"Much of the opposition to monopolies," continues Professor Bullock, "has been due to their unscrupulous and criminal methods of crushing competitors, and securing privileges from the government. Some of them have conspired with railroads to prevent competitors from using the national highways on equal terms. Some have hired agents to destroy the property of their rivals. Some have corrupted city officials, state legislatures, and courts for the purpose of accomplishing their ends; and their sinister influence has been felt repeatedly in Congress. Furthermore, the stocks and bonds issued by the corporations composing some monopolies have been 'listed' upon the stock exchanges. In many cases, the managers of the combinations have indulged in the very worst practices known to the exchanges, in order to make money by manipulation of the stock market."

Remedies for the Trust Problem.

And now how are these evils to be cured? Professor Ely, who has given long and careful attention to this subject, offers the following suggestions based on the supposition that we have "a general education to fit men better for the battle of life, and a special education giving instruction concerning the nature of monopolies and the problems to which they give rise."

(1) So far as the natural monopolies are concerned, such as railroads, telegraph lines, telephones, lighting-works, and water-works, he suggests that steps be taken to put them on the same footing with others. "As they are monopolies, the control which competition exercises over other businesses is in their case absent. The problem, then, is the abolition of favoritism: favoritism with respect to the income of this kind of property must be abolished—abolished so that surplus value may not fall into private pockets." There should be reduction and regulation of rates, "having in view the elimination of surplus value." Then, too, it must be brought about that "no favoritism shall be shown by these monopolies in their treatment of others. Such measures failing, resort must be had to—

(2) Public control of private property, on the one hand, or public property with public management, on the other hand. In the pub-

^hBullock's "Introduction," pp. 333-4.

lic control of private property there is this difficulty that it would be an attempt to secure a union of antagonistic elements. "It is a very serious question whether these two antagonistic principles can be thus reconciled. One inevitable result is the struggle of interests, with consequent political corruption and class arrayed against class." In Germany, however, a moderate measure of success has been met with through this plan. But the success of such a plan in the United States would necessitate a greater purity in our political life than we have at present. With public ownership, however, control is easier, "because it is in the very nature of public property that it should be publicly controlled." No doubt enough wise men could be found to manage these businesses properly, but it is not so certain, Professor Ely thinks, that we could "trust to the wisdom of the people to select and to give continuous employment to this class of men who are sufficiently wise and strong for the management of these businesses. The development of the civil service to a higher point than at present throws out our only hope of public ownership. There will be difficulties, but difficulties will necessarily characterize a highly complex government and the evolution of society.

(3) "A third remedy lies in the line of regulation of bequests and inheritances by taxation and otherwise, in order that in this way vast fortunes may gradually be broken up and wealth more widely diffused." The tendency everywhere at present is to do this. In some places great estates inherited by distant relatives or strangers are taxed as high as twenty per cent. "Even conservative legislation of this kind, operating continuously from generation to generation, produces a marked effect, as we may see in the case of France, where the laws compelling a very nearly equal division of property among children have produced during the present century a wide diffusion of wealth."

(4) As a fourth suggestion, Professor Ely advocates a revision of the tariff, where it can be shown that monopoly is due to the tariff.

(5) A revision of the law of patents should take place to cover all cases in which patents are made the basis of objectionable monopolies. A law might provide, for instance, that the government reserve the right to purchase any patent at an appraised valuation. Or a law might insist that the use of the patent shall be free to any one on payment to its owner of a reasonable royalty, the amount of which could be determined by a board. Or a tax increasing each year might be put on the use of all patents, those to lapse on which the tax is not paid. All these have been already suggested by various commissioners of patents.

(6) The reform of the law of private corporations along approved lines may be urged. There is already a national bureau of cor-

porations looking towards this end, and Professor Ely advocates the establishment of a bureau in each state for the same purpose. Some one should be accountable for every act of a private corporation; measures should be devised for fastening individual responsibility on him, such, for example, as exist in France, Germany, and England, and in the case of our own national banks.¹ The fact that "guilt is always personal" is becoming increasingly recognized in the nation's dealings with the trusts and the big corporations. Not the fictitious, legal person called a corporation is guilty of wrongdoing, but some man, some live flesh and blood man in the organization, and he should be dragged into daylight and the pale of the law when the corporation or trust does the unlawful thing.

SUMMARY.

1. A monopoly is not necessarily a big concern nor even a big corporation, but it is rather a business organization that, acting as a unit, has exclusive control of the production of certain things.

2. A trust is a combination of businesses with a view solely to controlling price.

3. There are four kinds of monopolies—(1) personal abilities, (2) legal monopolies, (3) natural monopolies, and (4) capitalistic monopolies.

4. Monopolies have assumed gigantic proportions in our day.

5. They have grown up among us mainly by combinations in restraint of trade.

6. Professor Ely suggests the following remedies: Regulation by government, public ownership, inheritance taxes, tariff reform, revising patent laws and of the law for private corporations.

QUESTIONS.

1. Define monopoly. Define trust. 2. How extensive are monopolies in America? 3. How many kinds of monopolies? What is each? 4. Explain how the trusts and monopolies have grown. 5. Give the remedies suggested. 6. Discuss regulation of monopolies by law. 7. Government ownership. 8. Inheritance tax.

¹Ely's "Monopolies and Trusts," chap. 6.

LESSON XII.

How Wealth is Distributed. Wages.

The Four Classes of Earners.

The total income of the United States for any given year is very great. Most likely, though, if it were computed for us, we should find the figure so large as not to be able to realize its meaning. But large or small, this income is distributed among the individuals who comprise the nation. Of course, the study of economics does not take up each individual case and endeavor to make out what each wage-earner is worth, but it divides the nation into classes of workers and tells how it is that each division gets what it does and to some extent whether this is just or not.

And this is an extremely important subject, the matter of how wealth is distributed. We shall see presently that some of the most perplexing questions of our time grow out of the feeling in large bodies of men that they do not get their full share. And yet the earth is full, and there is enough for everyone, and to spare. As Professor Marshall has pointed out in his "Principles of Economics," it makes a great difference whether a man's income is large or small. It may not matter much, so far as a fulness of the family life is concerned, whether that which he gets yearly is five thousand dollars or twenty-five thousand dollars, but it makes a very great difference whether it is five hundred dollars or twelve hundred dollars, for in the one case the family has, and in the other it has not, the material conditions of a complete life. To be sure, religion, family affection, and friendship find scope for the exercise of many of those faculties which bring the highest happiness. But the conditions that surround extreme poverty, of which there is a great deal in the world, especially in densely crowded cities, tend to deaden the higher faculties. "Those who have been called the residuum of our large towns have little opportunity for friendship; they know nothing of the decencies and the quiet, and very little even of the unity of family life; and religion often fails to reach them. No doubt their physical, mental, and moral ill-health is partly due to other causes than poverty, but this is the chief cause."

And then, too, this matter of how the wealth of the nation should be distributed is not easy to determine exactly. Of course, when four or five persons go hunting, it is not hard to find out what is each

one's share of the product of the day's hunt. It is harder, but by no means impossible, to determine each man's share if one be a cripple and inexperienced in hunting. And so it is in a primitive society, where everything is done on a small scale. But such is not the simplicity of our modern industrial system. Our industrial system is complicated by the great length to which the use of machinery has gone and the division of labor. The situation is made more difficult also by the enormous capital employed by the gigantic corporations of our times. Nevertheless, economists generally distinguish four classes, chiefly among which society's wealth is distributed. They are: (1) wages, (2) rent, (3) interest, and (4) profits.

For purposes of definite illustration. Walker imagines that the cloth a cotton factory produces in a given time is in one piece millions of yards in length and that those who have contributed in any way to its production advance to receive their share of the earnings. There appear then (1) the agent of the company which furnishes the power for turning the wheels with the owner of the land on which the mill is built, (2) the man who gave the use of the machinery and lent the capital, (3) the employers of the mill, and finally the manufacturer. Classifying these, we get four distinct groups—(1) the laborer who receives wages, (2) the owner of the land and natural forces, who receives rent, (3) the capitalist who obtains interest, and (4) the employer, or the one that brings the factors of production together, who receives profits. These are the four classes involved in the production of wealth in any given form—laborers, landowners, capitalists, and entrepreneurs,—and the only four classes that to any appreciable extent receive or deserve to receive their proportion of the results of the production of wealth. And what is more, every person who has a right to share in the fruits of productive industry, whether his effort is the result of hand or head, comes economically in one of these four divisions. Their individual income is either in wages or rent or interest or profit. It is often the case, however, that the same person owns the land, furnishes the capital, acts as manager, and does the work—for example, the small farmer. In this case, he obtains all the returns, but there are still these four functions discernible. The first of these—wages—we shall discuss in the present lesson, leaving the consideration of the other three to the lesson following.

Economic Meaning of "Wages."

The term "wages" is generally defined as the income received by a person in exchange for his labor. Labor, on this supposition, is a commodity, just as wheat, lumber, and houses are. A man comes to your door and asks for food. You direct him first to chop the log in the back yard into kindling. He does so and gets his breakfast. What

you have given him is food. What he has given you in exchange is the labor of his hands. One is therefore just as much a commodity as the other.

Similarly the man who offers to work on your farm or in your store or factory is offering his labor for sale on the market. Instead of sugar and beefsteak, as the merchant and the butcher offer, he endeavors to sell his labor. What he offers may be called merchandise. The worker is the seller, or merchant. The employer is the purchaser. And the price is called wages. In a sense "all men are wage-earners, except thieves and robbers," but not in the economic sense.

There are differences, however, between labor and other commodities. (1) The worker sells his work, but himself remains his own property. (2) When a person sells his services, he has to present himself where they are delivered. (3) Labor is perishable. The laborer must find employment at once. His energy cannot be stored up. (4) Concerted action is more difficult among the sellers of labor than among those that buy it. (5) The supply of labor cannot quickly be adjusted to the demand for it.

It is instructive as well as interesting to note the gradual evolution of labor. There was a time when the labor of slaves was sufficient to produce all that was needed by the household. At Athens, we are told, though the statistics are questioned by some authorities, there were four hundred thousand slaves in a total population of four hundred and thirty-one thousand persons. Then came a period when so-called journey-men were paid by the owners of shops, their wages being regulated by statute. Toward the end of the Middle Ages the masters were unable to produce on a sufficiently large scale, and so their places were taken by capitalists and wealthy merchants, who gradually became industrial leaders. Thus, the modern employer and modern labor were evolved,—a distinct employing-class, and a distinct working-class, with freedom to offer or refuse their services at the market price. This freedom, however, proved at first more beneficial to the employer than to the employee, but latterly the condition of the wage-earners has been improved, first, because they have united to form organizations for a better defense of their interests, and, secondly, because laws have been passed which provide humane safeguards; such, for example, as those regulating hours of labor and insuring hygienic conditions of employment.^j

Wages and Labor.

Two distinctions need to be drawn here. (1) The first is that between real wages and nominal wages. Nominal wages, of course, are those that are named in terms of money. But they may not be the real

^jGide's, "Principles of Political Economy," pp. 484-92.

wages at all. Real wages are the remuneration of the laborer reckoned in the necessities, comforts, and luxuries of life.^k Real wages may differ from nominal wages by reason of (a) variations in the purchase power of money; (b) varieties in the form of payment, as when the board of the laborer or the rent of a cottage is added to the money wage; (c) the greater opportunities in some vocations than in others for extra earnings; (d) the greater regularity of employment in some vocations than in others; and (e) the longer duration of labor power in some callings and some countries than in others. Thus, an Irishman who has reached the age of twenty years has 28.88 years to live; a Frenchman, 32.84; an Englishman, 35.55; and a Norwegian, 39.61; and the mortality in some vocations, as insurance companies tell us, is greater than in others. "If two persons begin to labor productively at the same period of life and continue at work until death, at the same nominal rate of wages, one receives the higher real remuneration who lives the longer."

(2) The second distinction is that of the nominal and the real cost of labor. When we speak of wages as high or low, we occupy the laborer's point of view. Wages, on the one hand, are high or low, according to the abundance or scantiness of the necessities, comforts, and luxuries of life which the laborer can command. The cost of labor, on the other hand, is high or low according as the employer gets an ample or a scanty return for the wages he pays the laborer, whether these be absolutely high or low. An employer may pay high wages, and yet the cost of labor to him may prove to be low, by reason of the laborer's superior efficiency. C. C. Adams ("Commercial Geography"), says that the labor on a ton of steel billets and rails in the United States cost less in 1901 than in Great Britain, though wages here were higher, and that the labor cost on a certain grade of shoes in a Massachusetts factory, where wages are high, is only forty cents a pair, but in Germany where wages are low, the cost is fifty-eight cents a pair. Then, again, the employer may pay wages on which the laborer can only live most miserably, and yet the employer be greatly straightened to get back these wages in the value of the products, so poor and wasteful may be the services rendered. As a rule, therefore, the highest priced labor is that which in the long run costs the employer least. That is why, when he has to reduce the number of his working force, those who get the lowest wages are the first to go.

Reason for Differences in Wages.

Two sets of differences are noticeable so far as wages are concerned.

^kWalker, who is the main authority followed in this topic.

(1) There are differences in wages as between localities. In the days of Adam Smith "eighteen pence a day might be reckoned the common price of labor in London and its neighborhood. At a few miles distance it fell to fourteen and fifteen pence. Ten pence might be reckoned its price in Edinburgh and its neighborhood. At a few miles distance it fell to eight pence, the usual price of common labor through the greater part of the low country of Scotland, where it varied a good deal less than in England." The reason for this great difference between various parts of the country lay in the fact that in those days people moved about very little and did not change occupations readily. In other words labor was highly immobile, as the economists say. There is still a difference between wages in one country and those for the same vocation in another. We have seen that labor costs less in a Massachusetts shoe factory than in a German shoe factory. And this difference between wages in different nations will probably not soon be obliterated. But there is a difference, too, between parts of the same country. In the school-teaching profession, for example, the average salary, in Utah, is \$77.32 for males, and \$53.60 for females; in Vermont, \$48.16 for males, and \$32.02 for females; and in Montana, \$87.30 for males and \$56.07 for females.¹ There is a difference also between the salaries given teachers in the city and in the country. In Colorado, for instance, male teachers receive on an average \$93.42 in the city, but only \$57.75 in the country. Differences more or less great exist in other occupations. There is greater mobility of labor here than in any other country perhaps, and much greater too than has ever been known before in the United States. Our people move about a good deal today as compared with those of former times, which is evident from the fact that according to the last census report (1900) twenty-five per cent of the people live in other States than those in which they were born. Still, even today, ties of love, family associations, habit, or sheer inertia hold most men to the localities where they were born, despite the allurements of possible higher earnings elsewhere.

(2) There is a difference in the wages of different groups of persons and of different persons, doing the same work. Incomes for labor vary from forty cents a day to one hundred thousand dollars a year and upward. "Most differences in rates of wages," says Professor Seager, "may be explained superficially by the unequal capacities of workmen. The demand of consumers calls for the production of certain goods. Entrepreneurs, taught by the industrial experience of the past, determine how the available productive factors shall be correlated for the purpose of satisfying this demand. The organization

¹"The New International Year-Book," for 1908.

of industry which results, calls for workers of different capacities for different tasks. These capacities are graded according to their economic importance, which depends, on the one hand, upon the field there is for their exercise, and, on the other hand, upon the number of men possessing them that are available." And he points out in general five classes of workers. Here is a man, for instance, having superior capacity for planning and carrying out large industrial undertakings, a good administrator, a talented artist, or professional man. Here is a second, competent to succeed in smaller undertakings or to administer in large affairs as a subordinate, an artist, or professional man of average ability, or a highly skilled mechanic. A third man is trained, say, for ordinary clerical or mechanical labor. The fourth is without special training but has the necessary strength and endurance for manual labor. A fifth lacks some of the mental or physical qualities essential to continuous labor of any kind. The tendency in each of these suggestive groups is to fix the standards of living that prevail in them upon each generation successively, and therefore to limit the possibility of rising from one group to another. Thus, for instance, the opportunity for education and technical training, not to speak of heredity, in the class of workmen getting from \$1,500 to \$3,000 a year is greater than it is in the group of workers receiving between, say, \$600 and \$1,500 a year.^m

Unquestionably there has been a gradual increase in wages during the last hundred years, as is shown by statistics from all countries. Taking the rate in 1860 as 100, statistics relative to wages in the United States show an increase, with fluctuations, from 87.2 in the years from 1840 to 1844 to 159.8 in 1890-91. Of course, certain modifying circumstances would somewhat lessen this general increase, such as that the increase has not been in proportion to the general prosperity. But even then the increase is enormous. This rise in wages has no doubt been due largely to what the classical school of economists would call natural causes.—increased productivity and increased general wealth—but a minor determining cause has been the growing and deepening sentiment on the part of working men that they are entitled to an increasing share of the wealth which they have helped to produce.

There has been a growing tendency, also, for a shorter day for the working man. This is generally taken by laborers, to mean a shorter day for the same wages, and to the extent that this is true, shortening the work-day is equivalent to an increase in wages, since it allows more time for the intellectual, moral, and even physical improvement of the laboring classes, and hence for an increase in their efficiency. There can be no doubt of the general beneficial effects that will flow

^mSeager's "Introduction to Economics," p. 222, and following.

from it to the laboring class. As Gide points out, it is necessary for workers, during a part of each day, to devote themselves to self-cultivation. A man's trade should not be his sole occupation; some time and attention should be devoted to home life and to the occupations of citizenship. And the extensive use of machinery in our industrial system tends more and more to monotony, and to require less and less intelligence on the part of the worker of the machines, but meanwhile to demand also a great amount of his time. A recent utterance of Hamilton W. Mabie's is pertinent here.

"Long drudgery," he says, "unrelieved by broad interests and by a variety of occupation, has made the man a business machine instead of a free, resourceful human spirit, living a full, harmonious life. Such a man is a mere fragment of what he ought to have been; and his success is a mere fragment of the fortune which he might have secured. A man's occupation is not his only business; his recreation and the free use of all his faculties are also his business; for a man's real business is not only to make a living but to make a life. The chief importance of making a living lies in the fact that it is the first step toward making a life; and the man who makes the most ample living but fails to make a life achieves the shell of success but misses its kernel. There is no real success which does not include the man; to accumulate a great fortune and remain untrained, unintelligent, untouched by the higher pleasures and resources, is to pile up wealth about one and continue to be poor in the midst of riches. The only man who succeeds is he who builds his life on a larger scale than his fortunes; the man who is smaller than his prosperity is a failure no matter how high his credit may be."

In this way, namely, by shorter hours of work and therefore more time on the part of the working-man devoted to his intellectual and moral, as well as physical improvement—it is hoped that the general upliftment of the laboring classes will be accomplished.

How to Increase One's Wages.

But this view is of a more or less distant future. There is a more immediate question that confronts every working young man now. This question is, "How can I increase my present wages or salary?"

Some young men take a snap-shot view of the matter. They are always on the lookout for short-cuts to wealth or happiness. Sometimes this takes the form of speculation. Now speculation, in a sense, is legitimate enough, though its tendency is towards evil. "When prices are falling below normal value the shrewd speculator sometimes begins to buy, and that helps to check the fall; when prices are rising above their normal value the shrewd speculator sometimes begins to sell, and that helps to check the rise." That may be legiti-

mate enough but often he goes farther than this. He is not usually willing to sit still and watch the market price go up or down. He wants to help it. So he misrepresents, he creates fluctuations, he juggles with the market. "The fact that in these fluctuations of the market thousands will be impoverished does not disturb him; the public is a goose which it is his business to pluck; that is the way he feathers his nest."ⁿ And that is swindling.

Sometimes the short-cut to wealth lies in the way of gambling. But gambling is only a short-cut to ruin and degradation. "In all its forms gambling is a desire to get something for nothing. Burglary and larceny have the same motive. * * * The desire to get money without earning it is the root of all evil. Only evil comes through the search for unearned happiness through unearned power. To get something for nothing, in whatever way, demoralizes effort. The man who gets a windfall spends his days watching the wind. The man who wins in a lottery spends his gains in more lottery tickets. The man who loses in a lottery does the same thing. In all forms of gambling, to win is to lose, for the winner's integrity is placed in jeopardy. To lose is to lose, for the loser throws good money after bad, and that too is demoralizing."^o So the young man cannot raise his wages by speculation or by gambling.

There is but one legitimate way in which he can increase his wages, and that is by increasing his efficiency. This must be done in two ways: First, he must not yield to those temptations that unman him. He must not be indolent. "When a man shuns effort, he is in no position to resist temptation." He must not be licentious. "The way to unearned love lies through the valley of the shadow of death. The path is white with dead men's bones." He must not be vulgar. "To be vulgar is to do that which is not the best of its kind. It is to do poor things in poor ways, and to be satisfied with that. Vulgarity weakens the mind, and thus brings all other weaknesses in its train. It is vulgar to wear dirty linen when one is not engaged in dirty work. It is vulgar to like poor music, to read weak books, to feed on sensational newspapers, to trust to patent medicines, to find amusement in trashy novels, to enjoy vulgar theatres, to find pleasure in cheap jokes, to tolerate coarseness and looseness in any of its myriad forms." He must not be obscene. Obscenity "is like the pestilence. Wherever it finds lodgment it kills. It fills the mind with vile pictures, which will come up again and again, standing in the way of all healthful effort. * * * To clean up a town, to free it from corrosion, saves men, and boys and girls too, from vice, and who shall say that moral sanitation is not as much the duty of the community as physical

ⁿGladden's "Straight Shots at Young Men," p. 10.

^oJordan's, "The Strength of Being Clean," p. 19-20.

sanitation?" He must not yield to intemperance. "The young man who guards his own future cannot afford to take chances. * * * If you don't want to do a thing, then don't do it. * * Private employers dare not trust their business to the man who drinks. The great corporations dare not. He is not wanted on the railroads. The steamship lines have long since cast him off. The banks dare not use him. He cannot keep accounts."[†] The time is fast coming when there will be no opening for the ambitious man who is intemperate."

Secondly, the young man who wishes to have his wages raised must cultivate the positive virtues. "There are conditions for each individual under which he can do the most and the best work. It is his business to ascertain those conditions and to comply with them."[‡] He must take care of his body—eat and drink the right quality and the right quantity of foods for him and at the right times; take whatever exercise he needs and no more; bathe frequently enough to have a "scrupulously well-kept skin," for unwashed people have dull perceptions; look to his sleeping hours, going to bed early that his body may be rested and rising early that his mind may be invigorated. "Vitality is not simply freedom from disease. It is something far more fundamental in a man's life than that. It is usually the men of tremendous vitality who exert an influence on the work of the world. They are the men of power." This does not mean the man of muscle, who may die of deficient vitality. But the young man must look also to his mental, moral, and spiritual qualities. He must cultivate intelligence and judgment in his work. There is always room for capacity and resource. He must enlarge his area of technical information, if his vocation calls for technical knowledge. It is so easy to have just enough to get along with, just as it is "easier to be almost right than to be right." Spare hours spent with good books will tell powerfully in the long run. And he must be trustworthy. Trustworthiness is of extremely high commercial value these days when temptation is so strong and human nature so weak. But to him that overcomes there is the same reward as ever. And, finally, he must be religious. The day is past when to be religious is to be a "sissy," but rather to have a strength which is denied to him who fears not God nor regards man.

In a word, there is only one way for the young man to increase his wages—that is by increasing his efficiency, by increasing the quality and the quantity of his total output.

[†]Jordan's "Strength of Being Clean."

[‡]Gulick's, "The Efficient Life"—a most helpful book.

SUMMARY.

1. Wealth is distributed among four classes—laborers, receiving wages; capitalists, receiving interest; landowners, receiving rent; and employers, receiving profits.

2. Labor is a commodity, it is bought and sold.

3. Real wages are all that one receives as compensation money.

4. Nominal cost of labor is what goes out in money for labor, real cost what the laborer produces by reason of his efficiency.

5. There is a difference in the price of labor in various countries and in various parts of the same country, as there is also in different individuals.

6. The tendency for some time now has been to lengthen the laborer's time for improvement, which in turn increases his efficiency.

QUESTIONS.

1. How is wealth distributed? 2. Do you get your full share? More than your share? Less? Are you worth what you get? 3. What are wages? 4. Why is labor called a commodity? 5. Tell the difference between real and nominal wages, real and nominal cost of labor. 6. Why does the poorest workman always go first? 7. Why should one man get higher wages than another? 8. Do you think, now that we have an eight-hour law in Utah, men are more efficient? Why? How do they spend their leisure? How do you spend yours? 9. How can you increase your wages?

LESSON XIII.

How Wealth is Distributed: Interest, Rent, Profit.

We have seen that there are four classes of persons among whom, mainly, the total wealth of the nation is divided—laborers, who receive wages; capitalists, who get interest; landlords, owners, that is, of land and other natural productive agents, who receive rent; and those who undertake the risks attendant upon business enterprises, who obtain profits. And in order to make our idea clear we used Walker's figure of the strip of cloth millions of yards in length. In the preceding lesson we considered the share of this cloth belonging to the laborers who helped to produce it. In the present lesson we are to consider how much goes out in interest to the capitalist, how much in rent to the owner of the natural forces concerned in its production, how much to the one who undertakes the whole risk of the business enterprise which combined the labor, capital, and natural agents necessary to produce the cloth.

Interest.

And first of interest, the amount received by the capitalist. Capital, we have seen, "consists of those things without which production could not be carried on with equal efficiency, but which are not free gifts of nature."^r Thus, tools and machinery, for example, are capital. The owner of these instruments is a capitalist. And the amount he receives from the use of these implements he calls interest. Capital, it should further be remembered, arises out of savings of past earnings.

Interest is popularly regarded as money paid for the use of money. But strictly speaking this is not correct. When a man borrows money with which to start up a factory, say five thousand dollars, it is not the money he wants, for he immediately turns this into a building and machinery. Often, however, there is not even a money transaction involved. A storekeeper gets from the wholesaler a bill of goods on credit. Literally he borrows the goods. This is why interest, in economics, means always compensation for the use of capital.

What is it that determines whether the rate of interest is high or

^rMarshall's "Principles," p. 149.

low? This is as interesting a question as the similar one which we found in the discussion of wages. It has been popularly supposed in the United States that the rate of interest is to be lowered by increasing the supply of money. This, of course, is an error. If every dollar in the nation were cut in two and each part were called a dollar, the rate of interest would not necessarily be changed. Why? Because "men wish to borrow that they may get control of the agencies of production: capital in its various forms. The amount to be paid for the use of capital will depend on its abundance compared with the occasions for its productive use. The issue of money will not increase the number of horses and cattle and plows, nor will it build shops and warehouses or construct machinery for manufacture or for transport. If the people of a community be thriving and progressive, the demand for capital, to start new enterprises, or to enlarge those already established, will be very great. If the community be, also, young, having brought to new fields the social and industrial ideas, tastes, and ambitions of an old society, the supply of capital will be scanty, and the rate of interest will rule high."³

The problem of interest fairly bristles with instructive questions, economic and moral.

Is there competition between capital and laborers? When the spinning-jenny was invented riots were common among laborers in France and England. And ever since that day there has been more or less hostility on the part of the working man towards machinery. The factory is constantly replacing employees by machinery. The linotype displaces the type-setter. Air-brakes take the place of the brakeman. Is this a real competition? Not at all, as we are now beginning to see. There is constant wear and tear of machinery. Buildings, cars, factories, ships, and railroads stand always in more or less need of repair. Besides, tools and machinery have to be made by somebody, and the more there are in use the greater the amount of labor involved in their production. Capital is therefore only a roundabout way of labor to production. Doubtless most of the increase in compensation for capital and labor resulting from this increase in production, goes into the pockets of the capitalist as interest. But some at least goes into the pockets of the laborer as wages. For the way is open to the laborer to work for himself if he choose. Many of them do this, as a matter of fact, and gradually become employers of labor. Other laborers, again, find it more profitable to work for an employer.⁴ The invention of machinery crowds men up and makes possible greater consumption, for laborers are consumers as well as producers.

³Walker's "Political Economy," p. 220.

⁴Davenport's "Elementary Economics," pp. 106, 115.

Another question growing out of interest is borrowing and debt. The very fact of interest implies a borrower and something borrowed—a debt. Is anyone justified in borrowing? And, if so, how can one tell when to borrow and when not to? Doubtless this matter does not at all concern the lender of capital. “Men borrow with all sorts of motives. This one borrows to embark upon an enterprise which shall make his fortune; that to buy a tract of land; another to pay a gambling debt; still another to cover a loss of revenue due to accident; yet another to live until he may earn something by his labor. But all of these motives that influence the borrower are altogether indifferent to the lender. This latter is concerned but with two things, the interest that he shall receive and the safety of his capital.”^u Borrowing means that for some reason or another men prefer to have a thing now rather than a year from now. That is what interest means. Now, if we obtain a benefit from borrowing, borrowing is advantageous. Thus, if you have no dinner today and will have two dinners tomorrow with no increase of appetite, obviously it is to your advantage to borrow. So a young man may reasonably borrow money to complete his education, counting upon paying at a future time. A business man, in straits for means to save his credit from injury or his property from forced sale, may be justified in borrowing. A farmer may rationally borrow one thousand dollars if he finds that this amount will increase the annual productiveness of his land to the extent of two hundred dollars. This is looking ahead.

But borrowing is frequently due to short-sightedness and stupidity. “We consume or waste today, not realizing the want in the future, or the burden of payment or of replacement. At the year’s end, likewise, the pleasure of today will look insignificant, when placed by the side of the needs and burdens of that time. Clear-headed and far-sighted men do not make this mistake to the same extent as the stupid people and the spendthrift.”^v Nobody has any right to run in debt for luxuries and pleasures, declares Washington Gladden.^w “Some very respectable people do it, but it is not respectable business. This is exactly one of the places at which the average conscience needs turning up. The coal to keep our houses warm, the shoes to protect our feet from the frost, we must have, even though we have not the cash in our hands to pay for them; we may surely have the hope of earning the cash at no distant date, and if we can find a grocer and a shoe dealer and a coal merchant who have confidence in our honesty, we may, with good conscience, run in debt for such necessities. But the fun and the finery can wait. And every young man who means to

^uTurgot, quoted by Davenport, p. 101.

^vDavenport, p. 100.

^w“Straight Shots at Young men.”

be thoroughly honest will stop, I think, outside the furnishing store and say: 'This hat is faded and this necktie is frayed; but never mind, I will wear them till I can pay for new ones.' And he will make the same reply to every suggestion of amusement and every temptation to personal indulgence. This is the straight road: walk ye in it! Every path that departs from this is crooked and slippery; you cannot tell where it will land you."

Rent.

The subject of rent need not hold us so long. Rent, we have already found, is the remuneration received by the class called land-owners for the use of natural agents. The term land, or natural agents, includes not only land in the popular sense, but mineral deposits, water privileges, and building sites.

It is necessary here to give a word of caution. Rent does not mean in economics what it does in popular usage. If Thompson uses a house which he does not own and pays Wilson, the owner, for its use, we say popularly that the first pays rent to the second. Economically this is not rent at all. Houses are economically capital; the owner of the house is a capitalist, and the capitalist gets interest for the use of his capital. What Wilson receives from Thompson is therefore not rent at all, but interest. Popularly it is rent, but economically it is interest. This is an important point. Similarly, if A hires a piece of land of B for agricultural purposes and pays B for the use of it, he is said, in popular language, to pay rent. But even this is not rent in the economic sense. Rent in the economic sense is the difference in the productiveness of various lands. This will become clearer as we go on, if we forget the popular meaning of the word rent. In economics, therefore, as in law, it may be necessary to forget everything we have ever learned about the subject prior to taking up the study. At all events, it is essential that we acquire the economic meanings of terms if we would think with economic exactness.

"The income received from natural agents may be explained by considering its most common form, the rent of land. Such rent arises out of differences in the desirability of various tracts of land, due to differences in location or in natural fertility. For agricultural purposes the natural fertility of land is important. Nature does much more to make some lands fertile than it does for others. Temperature and rainfall favor some lands. Some soils are far stronger than others, and can be used continually without deteriorating in the same degree. A plain has certain advantages over the slopes of a mountain, and land with a southern exposure is superior to land that slopes to the north. When land is once brought into cultivation, then the condition of the soil depends also upon the methods employed to pre-

serve its fertility; but natural differences still remain very important. The location of a tract of land is important in determining its desirability for any purpose whatever. Agricultural land must be accessible to the market, and the rent secured from it will depend partly upon this consideration. Land used for residence purposes will be more or less desirable according to its accessibility, its healthfulness, and the beauty of its surroundings. Land used for the location of manufacturing or commercial enterprises must, above all, be accessible to the market, to means of transportation, and to the labor supply."^x

Walker states the law of rent thus: (1) "Rent arises out of differences existing in the productiveness of different soils under cultivation at the same time, for supplying the same market. (2) The amount of rent is determined by the degree of those differences. Specifically, the rent of any piece of land is determined by the difference between its annual yield and that of the least productive land actually cultivated for the supply of the same market, under equal applications of labor and capital, it being assumed that the quality of the land as a productive agent is, in neither case, impaired or improved by such cultivation."^y

A brief illustration will make the operation of this law clear. When land is plentiful there will be no rent. As population increases, however, there will be more demand for the products of the soil. This demand may be met in two ways—either by cultivating new lands or by investing more capital on the old land. In new countries the best plots are cultivated first. If more land be needed the less fertile land must be used. "Let us suppose that land of the first degree yields thirty bushels of wheat per acre, at an outlay of thirty dollars, or one dollar per bushel. Then the land of the second degree will produce, let us say, only twenty bushels for the same expenditure, and the cost of production per bushel will be one dollar and a half. It is clear that the owners of this land will not be able to sell their wheat for less than one dollar and a half, for any lower price than this would involve loss, and they would cease raising wheat. We assume, however, that the population cannot get along without them. It is equally clear that those who produce on land of the first degree will not consent to sell their wheat at a lower price than their neighbors. They, too, will sell at one dollar and a half per bushel. But as it still costs only one dollar to produce, they will now realize a gain of fifty cents per bushel, or ten dollars per acre."^z And this is rent in the economic sense.

^xBullock's "Introduction to the Study of Economics," p. 437.

^y"Political Economy," p. 197.

^zGide's "Principles of Political Economy," pp. 584-5.

Profits.

We next come to profits, the income of the man who brings land, labor, and capital together in a productive enterprise—the employer. “The employer’s, or entrepreneur’s, chances for making a profit from his investment of capital depend upon his ability to produce and sell products for more than he expends in placing them in the market. The expectation of making such a profit induces men to undertake the cares and responsibilities of business management.”

The profits received by employers are usually divided into necessary and differential profits. Necessary profits must include (1) interest on invested capital, computed at the current market rates and (2) the remuneration for the efforts and trouble that employers incur in the management of productive enterprises. If it were not for this interest on invested capital investments would diminish and prices of commodities would rise high enough to insure an adequate return to capital. The second is called by economists “wages of superintendence,” a term that emphasizes the resemblance of this part of necessary profits to the wages of labor.

By differential profits is meant the recompense which those employers get who produce goods for less than the marginal expense. These are sometimes called “pure profits,” are extra or unusual, and therefore are very tempting. They may arise from—

(1) Superior personal ability. “Bad judgment in the purchase of materials or in the sale of the product may make all the difference between success and failure.” Much depends also on personal supervision and organization.

(2) The possession of patents which enable an employer to produce at less than the marginal expense.

(3) Mere chance or good fortune.

Profits may be due sometimes to monopolies. But as those have been discussed in a special lesson (lesson eleven), we need only mention the point here.

SUMMARY.

1. Wealth is distributed among those who get wages, those who get interest, those who get rent, and those who get profits.

2. Interest is what the capitalist gets.

3. The rate of interest is determined, not by increase of money, but by the demand for capital.

4. There is no competition between laborers and capital, but between laborers and capitalists.

5. Interest implies borrowing and borrowing is to be done only when it is to the advantage of the borrower to do so.

6. Economic rent is not money received for the use of land or houses, but the difference between the productivity of lands.

7. Profits are necessary or differential, and the amount must justify the risk taken.

QUESTIONS.

1. Among what four classes is wealth distributed? 2. Define interest. 3. Does the man at the checking office at the depot pay you for taking care of your valise? What about your money in the bank—who pays for taking care of it? 4. Should anyone ever borrow? Why and when? 5. What is rent? What is it not? 6. What is the law of rent? 7. What is profit? 8. Why should the employer get anything?—he produces nothing in the sense that the laborer does.

Labor Problems.

The extensive use of machinery, the large amounts of capital invested in single business enterprises, and the vastly increased facilities for production on a large scale, all distinguishing features of our modern industrial system, have given rise to some vexing problems, to solve which will require not only solid statesmanship on the part of our public men, but also intelligent consideration on the part of every citizen of our nation. One of these problems concerns labor, and will be treated in this lesson. But it assumes several phases. There is, first of all, the question of woman and child labor; there is the sweat shop; there is the matter of the immigration of foreign cheap labor with its effects on our own laboring class; and there is the question that grows out of the strained relations between capitalists and laborers, with the attendant lockout strike, and boycott. All these we shall briefly consider in the present lesson.

Woman and Child Labor.

According to the census reports there were, in 1880, more than two and a half million women occupied in gainful occupations in the United States and, in 1890, upwards of five and a half million. There was an increase in 1900 over that of 1890, but it was not so marked as that of the preceding decade. These figures, it should be added, include all females gainfully employed above the age of ten years. Also, in 1890, there were 1,118,356 children from ten to fifteen years of age engaged in gainful occupations in the nation, and, in 1900, there were 1,750,178.

That the problem growing out of the increasing employment of women in the industries is a perplexing one may be shown by the consideration of three points. First, married women are gainfully employed, which means usually that the home is neglected, if not the young children. In 1900 there were so employed, in the United States, only 769,477. So far as this point alone is concerned, therefore, the problem has not yet assumed serious aspects. Second, women generally work for less than men on the same class of labor, and hence there is really a competition between women and men. This may be disastrous in two ways: (a) Men may be actually displaced and thrown out of employment. (b) Their wages may be reduced by reason of the super-abundant supply of cheap labor. (c) There is no

prospect that women will get the same wages as men for the same work, for the reason that there is not the same inducement for them to acquire similar proficiency in their work. Most women expect to marry, they change from place to place and from occupation to occupation less than men, it costs them less to live than men, they often partially depend on other members of the family for subsistence, and oftener than men they lack training and skill. After all, however, the employer of women in gainful occupations is only natural and ordinarily would not be attended by any deep-seated abuses.

Not so with the employment of children in gainful occupations. Here the presumption is that the results are socially and economically evil. The extent of this evil, however, depends upon the following considerations: (1) Age. More than one-half of all the children 10 to 15 years of age gainfully employed in 1900 were 14 to 15 years old, and about one-sixth were under 12. In canning establishments in Maryland children as young as 5 years were found at work assisting their mothers or other adults, while in tobacco factories children of six or seven commonly helped their mothers. (2) Hours. Frequently children toil for so many hours a day that their strength is utterly exhausted and they have no energy left for intellectual profit or the pleasures which the young naturally crave. Where no law exists limiting the time of work eleven or twelve hours a day is the common period of labor. Night work is even a more serious evil. (3) Health. The manufacturing industries are full of dangers to the health of the children. The operation of machines frequently results in permanent deformity, accidents, and stunted growth. In paper box factories the coloring matter used is often poisonous. Tobacco factories are especially injurious to health, and even the strongest adults suffer from its poisonous effects. (4) Education. The greatest evil, however, growing out of child-labor, outside of the physical defects, is that the children are deprived of an education and that in its place is substituted a daily round of monotonous labor which is mere profitless drudgery so far as preparation for adult life is concerned and is calculated to blunt the undeveloped faculties of the child. Its moral environment also is thus almost uniformly undesirable. The amount of education such children receive depends wholly upon the existence or non-existence of compulsory education laws, such as are common in the North but are practically unknown in the South. In its worse form, therefore, child-labor is race degeneracy, and is admittedly one of the greatest evils in modern industrial life.

Immigration.

Statistics show that, from 1821 to 1903, the highest number of immigrants during any decade came to our country in 1881-1890 when

it reached nearly five and a quarter millions. Formerly immigration to the United States was principally from Germany, Great Britain, Ireland, Norway, Sweden, and Denmark, the stronger and hardier nations; but latterly the bulk of immigration has been from Austria-Hungary, Italy, Russia, Poland, China, and Japan. "The entrance into our political, social, and industrial life," says Walker speaking of the large influx of foreigners from these southern countries, "of such vast masses of peasantry, degraded below our utmost conception, is a matter which no intelligent patriot can look upon without the gravest apprehension and alarm. These people have no history behind them which is of a nature to give encouragement. They have none of the inherited instincts and tendencies which made it comparatively easy to deal with the immigration of the olden time. They are beaten men from beaten races; representing the worst failures in the struggle for existence. Centuries are against them, as centuries were on the side of those who formerly came to us." In 1900 nearly seven-eighths, 86.2 per cent, of all foreign born persons in the United States were found in the North Atlantic and North Central divisions, only 8.2 per cent in the Western division, and only 5.6 per cent in the Southern division.

The economic effect of this foreign influx is this: First, they have a lower standard of life than the American. While wages here are five times higher than in Italy, for instance, the cost of living here is only three times as high. There is, therefore, to some extent a competition between this class of foreigners and American laborers. But there is a difference in favor of the American on the score of a higher efficiency resulting from this higher standard of living. American labor is displaced chiefly in the lower grades of work. It is impossible to prove from statistics that this foreign immigration has had a serious influence in lowering wages, for in spite of it wages have steadily risen. Secondly, there grows out of the question such special problems as (a) illiteracy in our country which is increased by immigration of this class, (b) what is called the *padrone* system, according to which immigration for specific purposes, such as to break a strike, is solicited by labor employers in this country, and (c) the so-called "birds of passage" persons, for instance, like some of the Chinese, who come here merely to earn enough money to return to their native land and live there in comparative comfort on their savings.

In all the laws that have been passed by the national legislature since 1882, when the first general immigration act was passed, there has been a steady progression towards the idea of selection by exclusion and towards more effective methods of enforcement.

The gravest question so far as immigration is concerned is not the labor part of it at all, but the two-fold problem of population and

ideals of national life. As long as the Italian junk man immigrating to our country, propagates his species at the rate of nine children in fourteen years and the college-bred American^a either does not reproduce himself or has two or three children the question of foreign immigration will continue increasingly grave; as it will when so many millions come to our shores who are unable to absorb our national ideals.

The Sweating System.

The sweating system also requires a passing word. The term is used to describe specifically a condition of labor in which the largest amount of work in a given time is performed for the wage, and in which the ordinary rules of health and comfort are disregarded. It prevails chiefly in the clothing business in large cities like New York, Chicago, and Philadelphia. There is usually a central shop, for example, where the cloth is cut, from which bundles of pieces are distributed among the workers, who take them home to sew. From the low rates paid only the poorer classes of foreigners can do this sort of work. It is therefore done under the most unsanitary conditions. An instance or two will suffice to show the nature of the problem: Baltimore a place where such work is done was visited by the inspectors. "The family consisted of a man, wife and five children who worked, cooked, ate, and slept in two small rooms. The people looked as if they had not washed themselves for a year. The boys' coats that they were making were piled upon a dirty bed. The dirt could absolutely have been shoveled out of the rooms. Potato parings, garbage and filth of all kinds were strewn about the floor, and the odor that prevailed was so foul that one of the agents was made sick." In the same city "one case was discovered in which two children lay ill with diphtheria in a room next to that occupied by workers, who were making up cloaks of costly design and fabric. In Chicago a tailor was found working upon an evening coat of the finest quality, while five feet away from his table his son lay dying of typhoid fever, and another tailor was found working on a good summer overcoat in the same room in which there was a patient dying of small-pox. In the latter case the coat was marked with the name of a custom tailor in Helena, Montana." It is needless to say that clothing made under such conditions would, if known, be utterly repulsive to civilized in-

^a"President Eliot, in the annual report of Harvard, 1903, gives the vital statistics of six classes more than twenty-five years out of college. They fell about twenty-eight per cent short of reproducing themselves. Professor Thorndike of Columbia University finds that there has been a steady decline of the average number of children from 5.6 in the classes graduating in 1803-1809 down to 1.8 in the classes graduating 1875-1879."—"Christianity and the Social Crisis"—Ramchenbusch.

instincts, and, whether known or not, be extremely dangerous to life and health. According to the census of 1900, there were almost five and a quarter millions of persons so employed in the United States on men's and women's and children's clothing, mainly in New York, Chicago, Philadelphia, St. Louis, Boston, and Baltimore. "The evils of the sweating system can hardly be exaggerated. It is an undoubted breeder of squalor, want, intemperance, moral depravity, pauperism, crime, and death."

There has been some legislation on the subject, but the condition is difficult to reach by such means. The remedy lies, therefore, very largely in a strong public sentiment against the system. The Consumers National League Association composes the back-bone of this public sentiment. This association has created a "White List" of mercantile establishments which give fair treatment to their employees, and a "Consumers' League Label" which is placed upon goods manufactured meet "the four general requirements: (1) obedience to the factory laws, (2) all goods made upon the premises, (3) no overtime work, and (4) no children under sixteen employed."^a

The Labor Movement.

When a wage-earner and an employer enter into a contract by which the former engages to work for the latter, they necessarily bargain under more or less unequal conditions, and these conditions are usually against the wage-earner. He is thus under a disadvantage (1) because his labor resembles a perishable commodity—he must get work at once; (2) because his knowledge of the price of labor and the demand and supply of workers is inferior to that of the employer; and (3) because frequently there is an actual or tacit understanding among employers which restrains them from competing freely for employers by advancing wages. As a result, therefore, employers, as a class, are superior to workers as a class as bargainers, which causes workmen to accept less than their fair share of the products they help to produce.

This disadvantage on the part of the workmen as opposed to the employer has given rise to labor organizations, which in turn have produced associations among employers. The main feature, therefore, of labor organizations is what is called collective bargaining. And the purpose of trade unions is in general to advance the interests of the workmen who form them. The purpose of capitalist-association is to resist the labor organizations where those interests conflict with the interests of the employers so associated. There has arisen, there-

^a The work mainly followed thus far is "Labor Problems," by Adams and Sumner.

fore, especially in the United States, a division between capital and labor, out of which has sprung the most serious problem connected with labor in any form. And this is sometimes distinguished as the labor problem.

Perhaps fifteen per cent of the ten million odd men returned by the census of 1900 as employed in trade, transportation, manufacturing, and mechanical pursuits were members of unions. Of these nearly one million were connected with the American Federation of Labor. These unions of workmen levy a regular assessment on their members, the main purpose of which is to further the interest of their workmen. Thus in 1903 the United Mine Workers had in the treasury \$1,027,120.-29. On the other hand, as time goes on the tendency is increasingly towards a union of employers. There are in active existence in the country eight hundred industrial combinations having a total capitalization of fifteen billion dollars.

Both unions are acting from self-interest more or less enlightened. The stockholders of the corporations say in effect to their officers, "Increase our dividends." And the members of trade-unions cry to their leaders, "Get more for us in shortness of hours and increase of wages." Now, generally speaking, more for the wage-earner means less for the employer, and more for the employer means less for the workman. And hence the clash of interests.

For evidence of the strained relations between the employer and the employee we have only to turn to the statistics by the United States Department of Labor for the twenty years ending December 1, 1900: 82,793 strikes^c with a wage loss of \$257,863,478; a loss through assistance rendered by labor organizations of \$16,174,793; and a loss to employers of \$122,731,121. The lockouts during the same period numbered 1005, with a wage loss of \$48,819,745; a loss through assistance rendered by labor organizations of \$3,451,461; and a loss to employers of \$19,927,983." Thus the total loss to employees from strikes and lockouts was more than three hundred six and a half million dollars and to employers of over one hundred forty-two and a half millions, making a total of nearly five hundred millions.

Nor is this all. There are nearly always three parties to a strike or a lockout—the employer, the employee, and the public. The figures given above do not cover the injury done to the public. The extent to which the public may be concerned is seen in the anthracite

^c A strike is a concerted withdrawal from work by a part or all of the employees of an establishment, or several establishments, to enforce a demand on the part of employees. A lockout is a refusal on the part of an employer or several employers to permit a part or all of the employees to continue at work, such refusal being made to enforce a demand on the part of the employers.—21st Annual Report of the Commissioner of Labor, 1907, p. 11.

coal strike in Pennsylvania in 1902. The strike continued for five months; factories were closed for lack of coal, thus throwing thousands of innocent persons out of employment; and inconvenience and suffering were entailed by the general public during the winter season on account of the scarcity of coal. Nor do the figures given in the preceding paragraph cover other points in which the public is concerned. Between January 1, 1902, and June 30, 1904, 198 persons were killed through strikes, 1,966 were injured, and 6,114 were arrested. During the Pennsylvania strike, dwellings were dynamited, trains obstructed and wrecked, dams and bridges destroyed, fierce passions fomented, and there resulted a brooding over wrongs on the part of thousands which gives rise to false and distorted views of life and vagaries inconsistent with American democratic institutions. Then, again, out of these conditions have come labor agitators, known as walking delegates, of whom the notorious Sam Parks is a type. Before being imprisoned for his black-mailing proclivities, he confessed to have had money transactions with employers. "They put me here," he said. "I could name one hundred employers who have made a practice of using labor unions against competitors. I know plenty of employers who have made fortunes by the use of money on a young fellow who has never made more than a couple of dollars a day, and has been put in authority by his union."

Such conditions have brought about strong condemnation from thinking men. "Viewed from ideal conditions," says John Mitchell, "a strike is a barbarous method of settling industrial controversies. It is a struggle of endurance, a question of might, not right." And he thinks that the necessity for "even an occasional strike constitutes one of the strongest indictments against civilized society." Daniel J. Keefe, president of the Longshoremen's Association, says that labor strikes are but another species of war and that the question involved in strikes becomes increasingly serious with the increase of intelligence in the men who participate in them. "The public," declares Nicholas Paine Gilman, "is the supreme court of appeal, and it does not approve of trade-unions making war on employers' associations; or of employers' associations fighting trade-unions to the bitter end; or of trade-unions and employers' associations banded together to fleece the public."

No one will dispute the fact that any workman has a right to sever his connection with his employer if, by doing so, he does not invalidate a contract, and to engage with another employer. This, applies as much to the non-union man as it does to the union man. Likewise no one will dispute the fact that an employer has an equal right to engage whomsoever he will and to dismiss for cause whomsoever he will, provided he does not break a contract by his act. But in strikes this prin-

ciple is lost sight of. The plumbers, say, demand an increase in wages. The master workmen deny their request. They strike. So far all is well. Nobody has transcended the bounds of right and wrong. But the employers engage non-union men, which doubtless, they have a right to do. The strikers not only call the non-union men "scabs," but endeavor to prevent them from working and it may be to the extent of destroying clandestinely what work non-union men have been able to perform. Moreover, the labor organization often takes measures to prevent any of its members from accepting work for less than the amount for which it is contending. This they have neither the legal nor the moral right to do. The first step necessary for the progress of the labor movement out of the present difficulties is for the workmen to learn where lie the boundaries of their rights and not to transcend them. For to transcend them means a loss of public respect and sympathy.

But this leaves the situation wholly at the mercy of the employer, and say what we will, the history of the labor movement has been one in which concession after concession has had to be painfully wrested from the large employer, or capitalist. The remedy lies, as economists think, in one of three things.

(1) The creation of arbitration boards by the employers and employees. This plan prevails to a considerable extent in Great Britain and to some extent in the United States. Its defect lies in the fact that, so far as experience furnishes any clue, only minor differences can be settled thus. When a big issue arises each party usually prefers to fight it out on the old lines.

(2) The creation of State boards of conciliation and arbitration. Most countries already provide such boards. Not only do they have the power to arbitrate disputes that may be brought to them for settlement, but often they are given authority to conduct initiatory investigations. But such boards have no power to enforce their decisions, which leaves the parties to the disagreement to fight out their differences in their own way. A board of this sort, however, when it is empowered to investigate matters of dispute on its own initiation can be of great benefit in enlightening the public on the essential facts of the controversy and thus bring about a settlement; for in the great majority of cases the outcome of a labor dispute is determined by the view which the public takes of the points at issue.

(3) The enactment of laws requiring compulsory arbitration. As yet there is little demand for this step, and probably there will continue to be little demand for it in the United States, unless employers and employees show a greater disregard for the public interest, great as that has been, than they have hitherto shown. The plan, however, is in operation in Australia, and deserves to be watched with attention. "If,

as many competent witnesses maintain, strikes and lockouts can be entirely superseded by compulsory arbitration without detriment to employers, employees, or the public, the introduction of the latter in all progressive countries is likely to be a question only of time and occasion." In New Zealand there is a law making strikes and lockouts misdemeanors. By this act the country is divided into districts, each of which is provided with a board of conciliation. This board may take the initiative in attempting to adjust differences between employers and employees, and in case of failure to refer the dispute to the Court of Arbitration with recommendations, also created by this law. Subsequently a law was passed permitting a dispute to be referred directly to this court. This court consists of three judges, one a judge of the Supreme Court. Thus far the system has put a stop to strikes and lockouts and brought about better relations between employers and employees.

SUMMARY.

1. The employment of women in gainful occupations is natural and ordinarily would not be attended by abuses.
2. Child labor is socially and economically evil.
3. The gravity of foreign immigration lies chiefly in the influx of inferior persons, and in the danger to our ideals.
4. In the sweating system we find a condition that breeds squalor, want, intemperance, moral depravity, pauperism, crime, and death.
5. There is a growing conflict between capitalists and laborers, which finds expressions in strikes and lockouts.
6. There are three parties to every labor problem—the laborer, the employer, and the public.
7. Solution to labor difficulties lies in the direction of voluntary or compulsory arbitration.

QUESTIONS.

1. Where lies the danger in employing women in gainful occupations? 2. Of child labor? 3. Of foreign immigration? What is the difference between the immigration question today and seventy-five years ago. How will legislation on this subject affect the immigration of "Mormons?" 4. Why is the labor movement sometimes called the labor problem? 5. Tell how grave this problem is. 6. Why should the public be a party to labor problems? 7. How can the labor troubles be remedied? Which of the three plans do you think the best? Why?

LESSON XV.

Government Expenditures and Revenues.

The Uses of Government.

From an economic standpoint government is of the highest value. In the first place, governments aim to protect persons and maintain order. They insure us personal freedom, the right to hold private property, and the right of private contract. In our present economic life, these are fundamental. Secondly, governments guarantee the enjoyment of certain privileges, as, for example, patent rights, trademarks, and copyrights. Thirdly, the government regulates the terms of competition as may be seen in laws concerning labor contract, interest, freight rates, and the inspection of food. In the fourth place, governments sometimes participate in private enterprises, as when bounties or subsidies are bestowed by them on private businesses. Thus millions of acres of land and millions of dollars have been given by our Federal government to aid in the establishment of railroads. Finally, governments themselves often carry on useful public works. They establish roads, lay sewers, gather statistics, coin money, and provide educational facilities. The very word society, thus, implies government of some sort.^a

But government implies laws and men to make and interpret and execute them, all of which requires income money. The following figures show the vast amounts expended by national, state, and local governments in the United States in 1890:

(1) Educational purposes, \$145,600,000; (2) military pensions, \$106,900,000; (3) military purposes, \$57,500,000; (4) interest on public debt, \$82,700,000; (5) police departments, \$23,900,000; (6) health departments, \$3,300,000; (7) fire departments, \$16,400,000; (8) the judiciary, \$23,000,000; (9) penal and reformatory institutions, \$12,440,000; (10) charities, \$40,000,000; (11) Indians, \$6,700,000; (12) improving rivers and harbors, \$11,700,000; (13) roads, bridges, sewers, and ditches, \$72,300,000; (14) postal service, \$66,300,000; (15) lighting, \$11,400,000; (16) public buildings, and their maintenance, \$56,800,000; (17) public parks and places, \$3,000,000; (18) executive departments, \$16,800,000; (19) Congress and legislative departments, \$10,500,000; (20) foreign intercourse, \$1,600,000; (21) salaries, fees, commissions, \$37,600,000; (22) miscellaneous expenditures, \$109,500,000; total, \$915,900,000.^b

^aSee Bullock's "Introduction," pp. 514-16.

^bSeager's "Introduction to Economics," p. 534.

"In all countries," says Professor Bullock, "governmental expenditures are increasing in a marked degree. Between 1830 and 1890, the national expenditures of the various states of Europe rose from four to eleven dollars per capita, and the rate of growth was even more rapid in the latter than in the earlier decades of that period. In the United States federal expenditures rose from \$1.42 to \$6.81 per capita between 1840 and 1905, and the budgets of our local political units have shown a tendency to increase." This condition need not, however, create any alarm, as the consideration of two facts will show: First, although the per capita expenditures have increased, wealth has also increased, so that the burden is relatively less than it was. Secondly, the larger expenditures have, for the most part, been due to the enlargement of the function of governments in recent times.

Kinds of Public Revenues.

Professor Bullock recognizes six classes of governmental income. They are—

(1) Revenue from domains and public industries. By public domains is meant lands possessed by the government. In Europe some government agricultural lands are owned and cultivated by governments. Mines also are part of the public domain in some countries, and are so operated. The United States once owned an enormous public domain, but this has been allowed to pass largely into private ownership upon the theory that our resources could be rapidly developed in this way. Hence, governmental revenues from this source are now very slight. The postal service in our nation does not yield a revenue. In many American towns and cities the work of supplying the people with water, transportation, and light facilities is left to private corporations, but these industries yield an income in franchises. The returns, however, are rarely in proportion to what is given away in the franchise.

(2) Fees. A fee is defined as a "payment to defray the cost of each recurring service undertaken by the government primarily in the public interest, but conferring a measureable special advantage on the fee-payer." Thus probate fees, court charges, fees for recording deeds and mortgages or for issuing marriage licenses, are common examples of this form of public revenue.

(3) Miscellaneous revenues. "Fines and penalties form a small item of income. Sometimes property reverts to the government upon the failure of heirs. * * * Governments are occasionally the recipients of gifts. These are usually for some specific purpose, as a park, a library, or a schoolhouse, and do not form a part of the general public revenue."

(4) Special assessments. A special assessment is "a compulsory contribution, levied in proportion to the benefits derived, to defray the

cost of a specific improvement of property undertaken in the public interest." Thus the owners of property along a given street may be called upon to pay a part or even the whole of the cost of paving, laying drains and sewers, etc. Special assessments have become an important and probably a permanent feature of American municipal finance, since they have proved well adapted to the needs of young and rapidly growing cities." In 1903 seventy-five cities collected nearly thirty-four million dollars in this way.^c

(5) Public loans. "Of course, the receipts secured by public borrowing are of a temporary character, and carry with them the necessity of ultimate repayment. But generations and even centuries sometimes elapse before such debts are extinguished, so that loans may assume a relatively permanent character."

(6) Taxes. This is the most important branch of public revenue. "A tax," says Professor Seager,^d "is a compulsory contribution to the government to defray expenses incurred for the common benefit without reference to special advantages enjoyed." The points to be emphasized in this definition are (1) that the payment is compulsory. (2) that the proceeds are to be used for the public benefit, and (3) that the justification for the payment is participation in these common benefits rather than any special advantage enjoyed. Taxes are justified on the grounds that there must be maintained an agency through which collective action for public purposes may be secured. "But this justification," says Bullock, "can be urged only in behalf of taxes levied for useful and necessary objects of expenditure, and applied economically and honestly to such purposes. Unless these conditions are fulfilled, taxation becomes virtually robbery, even though practiced under the guise of law."

Principles of Taxation.

Adam Smith lays down four things as necessary in a good tax: (1) equity, (2) certainty, (3) convenience of time of payment, and (4) avoidance of unnecessary cost of collection, direct or indirect. Economists nowadays usually devote little attention to the third and fourth characteristics. The first two, however, demand and receive much attention.

What is it that constitutes justice in taxation? The following answers to this question deserve consideration.

(1) "A commonly accepted theory in the United States has been that the taxes demanded from each citizen should be proportioned to the benefits he derives from the protection and other services ren-

^cBullock.

^dIn his "Economics," p. 544.

dered by this government." But how is it possible to measure in any tangible way the benefits that any particular person derives from government? The millionaire is not benefited a thousand fold more than the pauper, who pays no tax.

(2) A more satisfactory theory is that every citizen should pay taxes in proportion to his ability to pay them. This is called the "faculty theory." The application of this principle is difficult. "What a person consumes may be a measure of his necessities instead of his ability." Thus the father of a family and a bachelor would not stand on the same level. Besides, not all property is equally productive. Some of it may be even a burden upon the owner. And then, too, "many men who have little accumulated wealth receive wages and salaries from their labor or professional services, and are able to pay much heavier taxes than their property would indicate." Lastly, total income has been suggested as the proper measure of faculty. But incomes do not imply similar abilities, as one derived from personal exertions and one derived from property. Then, again, ability varies with the demands made upon each person's resources. Two incomes, for example, may be equal, but one may be the income of a single man and the other of the father of a large family.

President Hadley^e lays the whole stress of his argument on the second of Smith's tests of a good tax—certainty. "Certainty," he says, "is the fundamentally important object, without which all attempts at equality prove illusory. With an uncertain tax no systematic improvement can be hoped for. With a certain tax many evils which exist at the outset tend to diminish as time goes on. Uncertainty," he continues, "may result either from failure to discover the objects which should be taxed; or from doubt as to their value; or from the possibility of collusion between the assessor and the person who should pay the tax by which consent is given to an unduly low valuation."

Taxes Imposed in the United States.

In general there are three kinds of taxes imposed in the United States. They are as follows:

(1) Taxes on income, including inheritance taxes. Income taxes are levied in proportion to the income of the tax-payer. This form of taxation prevails to a considerable extent in Europe, but has never been looked upon favorably in the United States. Great Britain now derives about \$150,000,000 from this source. During the Civil War our government levied an income tax, which yielded a revenue of nearly seventy-three million dollars. In 1894 another income law was passed, but was declared unconstitutional before it went into operation. The advantages of an income tax, if it is well enforced, are: (1)

^e"Economics," pp. 451 8

It cannot be easily shifted and (2) it has the merit of at least appearing equitable. But if the law is poorly framed, as some of ours in America have been, or if the law is badly enforced it is a difficult form of taxation. "In England and other countries income taxes have been constantly improved, and operate more satisfactorily the longer they remain in force."

Inheritance taxes have been much discussed of recent years in the United States. "Upon the death of a rich man his property passes to those who have not earned it, whose usefulness in society is not certain to be increased by the receipt of it, and whose claim to it as against society is not entirely clear, in view of the fact that society has had a much larger share than they in the creation of it. It is an added advantage that the tax is not felt as a great burden by those whose gains come to them as pure good fortune. There is, of course, danger that the tax be placed so high as to stimulate evasion by gifts before death. Partly in view of this, it is generally advised to fix the rate low for cases where the property goes to wives or children, and higher as the amount is greater or as the property goes to more distant relatives. It is frequently condemned, however, on the grounds (1) that it weakens the motive for saving, (2) that it interferes with the owner's right to do as he wishes with his own, and (3) that it partakes of class legislation and of socialistic tendencies. "The inheritance tax is extensively employed today in Great Britain, Switzerland, and Australia; and has been introduced, in some form, in thirty-six of our states," including Utah.^f

The income tax, it is asserted, can best be collected by the national government, but the inheritance tax by the state and local governments.

(2). Taxes on property. "The general property tax," says Professor Seager, "is an institution peculiar to the United States, to be explained by reference to the conditions found in a primitive agricultural community. When the American states began imposing taxes they accepted two principles for their guidance, first, that every head of the family should contribute something towards the support of the government and, second, that the amount of a man's property was the fairest index to his ability to pay taxes." In practice nowadays, however, a large amount of property escapes assessment. The law usually distinguishes between real estate and personal property. Now, real estate with such buildings as may be on it is easily assessed, since it cannot run away. Personal property, on the other hand, which includes not only such things as furniture, vehicles, wearing apparel,

^f The inheritance tax in Utah was enacted in 1907. Since then more than three hundred and twenty-four thousand dollars has been derived from this source of state revenue. The law provides for a five per cent tax on inheritances of more than ten thousand dollars.

tools, implements, etc., but also such things as money, notes, mortgages, stocks, bonds, etc., cannot be accurately assessed by the present means. To show how serious this matter is a case may be cited. "In California between 1872 and 1887 while the assessed value of real estate increased from 417 to 791 million dollars, the assessed value of personal property decreased from 220 to 164 millions. By 1893, although the value of real estate had continued to increase until it was over 1,000 million dollars, the value of personalty had increased to only 173 millions.' Similar results as to the tax dodger can be shown in most other states. "So conspicuously does the personal property tax fail to reach the property of those who are unwilling to pay that it has been justly described as 'debauching to the conscience and subversive of the public morals—a school for perjury, promoted by law.'"^f The general property tax thus becomes virtually a tax on land, on buildings, on certain sorts of personal property, and on certain sorts of personal property owners—namely, those who are peculiarly conscientious.

(3) Taxes on business, including excise customs and duties. These are of various kinds. There are incorporation or license taxes, franchise taxes, taxes on capital stock and bonded debt, gross receipts taxes, net income taxes, and special franchise taxes. In most of the states the incorporation tax is merely a fee, but "in a few like New Jersey, whose incorporation laws are so drawn as to attract organizers of corporations from other states, it is an important source of revenue."

"The franchise tax is a tax on a corporation as a going concern. As distinguished from the incorporation tax it is a payment for the right to do rather than merely to be." Hitherto we have not generally, as stated elsewhere, taxed the franchise in proportion to the benefits received. But this error is being corrected as fast as may be.

Stocks and bonds are hard to reach through the property tax. Hence, states have sought other means of taxing them. "The plan most commonly adopted is to tax the corporations themselves, while exempting their securities in the hands of the owners." Banks, insurance companies, railroads, telegraph and express companies, and some other corporate enterprises are included in this special corporation tax. "In some cases more revenue is now collected for state purposes by means of corporation taxes than by the general property tax." Massachusetts, for example, collected in 1904 more than four million dollars by corporation taxes, and two and a half million for state purposes by tax on property. In the same year New Jersey raised three and a quarter millions by this means and levied no tax on property for state purposes. All the states together received, in 1890, nearly twenty-two millions from taxes on corporations. "Rail-

^fSeager's "Introduction," p. 549-50.

roads are taxed in a great variety of ways. In many states the gross earnings are taxed; in others the tax is levied upon the value of the outstanding stocks and bonds."

Customs duties have always proved a large source of revenue to the general government. With us these are taxes imposed only on commodities that are imported into the country, the Constitution forbidding tax or duty on goods exported. "Prior to the Civil War these taxes had usually furnished in times of peace nearly the whole of the national revenues. Customs duties may be either specific or ad valorem, according as they are assessed proportionately to the bulk of the commodities or to the value. A law passed in 1898 greatly increased the use of specific taxes. The bulk of our customs receipts has always been upon articles of general consumption. "Thus in 1897, the duties on sugar, molasses, and tobacco yielded \$62,300,000, or more than one-third of the total customs revenues. "It will be evident," says Bullock at the conclusion of his discussion of this subject, "that considered by themselves, customs duties, are open to grave objections as a sole source of revenue, but some of these difficulties disappear when such taxes form merely a part of a general revenue system. It is certain that the tendency of this form of taxation is to throw a disproportionate burden upon those people who are least able to contribute to the support of the government," since customs duty are in the long run paid mainly by the consumer.

Excise duties are a form of internal taxation, and are levied upon commodities produced within a country. This mode of taxation has not been continuously employed by the general government. Sometimes there have been no excise duties, and once, during the Civil War, Congress levied taxes on "almost every conceivable article," till the revenue from this source amounted, in 1866, to 190 millions.

SUMMARY.

1. Government maintains order, guarantees patent-rights, regulates competition, helps private enterprise, and establishes public works.

2. But it must have money to do this.

3. The public revenues come from six sources: (a) Domains and public industries, (b) fees, (c) miscellaneous, (d) special assessments, (e) public loans, and (f) taxes.

4. The principles of taxation are (a) equity, (b) certainty, (c) convenience in payment, and (d) avoidance of needless expense in collecting. Certainty is the most important.

5. Our present system of property tax, however, is defective in that it leaves openings for the tax dodger.

6. But taxes on franchises, stocks and bonds, and corporations, etc., minimises these defects.

(THE END.)

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It is suggested that an oratorical contest, a debate, and a discussion, may profitably occupy at least three, and perhaps more, of these evenings, which still would give ample time for reading and story-telling contests by the younger classes, as well as an evening for musical exercises.

The officers should select the contestants early in the season, giving them ample time to prepare, and then call for their exercises at different times during the season so as to intersperse or alternate these exercises with the regular lessons.

Instructions for debates are found in a speech by Dr. John A. Widtsoe in the September, 1910, number of the ERA. These instructions are authentic, having received the public approval of President Joseph F. Smith and the General Boards Y. M. and Y. L. M. I. A.

Subjects for debates and discussions were printed in the 1909-10 senior manual, and others will appear in the ERA and the "Journal" from time to time. No subject should be debated until it has been approved by the General Boards.

Instructions on music were given at the annual general conference of the M. I. A. by Oscar A. Kirkham, of the General Board, and are found in the September, 1910, number of the ERA.

Athletic contests, concerts, dramatic entertainments, etc., are extension work of the associations, instructions in which will be issued by the committees of the General Board from time to time, through the organs of the associations, and through which the Board hopes to create an interest among the young men that will result in much good to those who take part, and to the great cause of the Lord for which we are all striving. These exercises will necessarily have to be held on other than regular meeting nights.

In connection with other work, the General Board has suggested a home reading course for the Mutual members. A list of the books is found in this manual. In the September, 1910, ERA is an article by Dr. George H. Brimhall on the "M. I. A. Reading Course," that will be an inspiration to every officer who reads it. The design is to have a set of these books in each association for the use of the members, and the purpose is to encourage the reading of good books.

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Volume 14, 1910-11.

President Joseph F. Smith, Editor.

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